# THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2004

## HEARING

BEFORE THE

## COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

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# THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2004

**TUESDAY, FEBRUARY 4, 2003**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
*Washington, DC.*

The committee met, pursuant to call, at 10:45 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Gutknecht, Ryun, Hastings, Schrock, Brown, Wicker, Bonner, Franks, Garrett, Barrett, McCotter, Diaz-Balart, Hensarling, Spratt, Moran Baldwin, Moore, Lewis, DeLauro, Edwards, Scott, Ford, Capps, Thompson, Baird, Cooper, Meek, Davis, Emanuel, and Majette.

Chairman NUSSLE. Good morning again. This is the full committee hearing of the Budget Committee of the House of Representatives on the President's budget for fiscal year 2004.

The witness today will be Mitchell E. Daniels, Director of the Office of Management and Budget. I am pleased to welcome Mitch Daniels back to the Budget Committee. I am also pleased to receive today the President's budget of the United States for fiscal year 2004.

We are appreciative that you got it to us on time. That is probably more than can be said about the Congress of late with regard to getting its work done on time. But we appreciate that you got your budget on time to us, and we receive it here today.

When the President submitted this budget for fiscal year 2004 yesterday, the underlying question for me was a very simple one. Is it fiscally responsible? Is it a fiscally responsible blueprint for governing, and does this fiscally responsible blueprint for governing deal with the difficult challenges that America faces? From what I have read at this point, and based on what I believe is a very ambitious agenda laid out by the President in last week's State of the Union address, I believe the answer to these questions is yes.

Now, I have no doubt that there will be critics of the President that will scoff. They will point to the substantial near-term deficits that are provided under this budget, deficits that the President and his aides have not glossed over at all. Those deficits are troubling. Deficits do matter, especially coming just 2 years after when we anticipated budget surpluses for as far as the eye can see.

But we all know what happened and how we got to this point in time. Our economy which had slowed dramatically in the year 2000, slid into recession just as President Bush took office.

Later that year, terrorism struck here on our own soil, further challenging our national and economic confidence. Our necessary response—rebuilding and shoring up security here at home, and taking on terrorism where it breeds overseas—has required a commitment of not only our American will, but our resources.

I would like to refer you to chart No. 9. There we go. There are many factors that contribute to where we are today, but most of those factors were beyond the control of the United States Congress, beyond the control of the President of the United States in turning these surpluses into deficits.

You cannot have a discussion about surpluses and deficits and forget September 11, 2001. You cannot have a discussion about turning surpluses into deficits without recognizing that we had an economic recession that went deeper as a result of the terrorist attack in 2001. And yet it seems that for some reason the smallest portion of the reason why we might be in deficits, the tax cut that was passed—if we all remember, in order to spur the economy of 2001—we often forget or assume that it was the tax cuts, and the tax cuts only, that for some reason has driven us into deficits and driven us into the situation that we find ourselves.

All of the factors that we faced then are still active today. At the same time we continue to face increasingly urgent demands in areas such as education and health care. Budget deficits are among the results, but fiscal responsibility is not just about making the numbers add up in a certain way.

A friend of mine recently said, you know, the Soviet Union had a balanced budget. That is true. The Soviet Union was not being fiscally responsible. That is obvious. It is fundamentally more about governing than just about whether the numbers add up.

And governing requires striking a balance among competing demands, weighing desires against needs, and facing obligations not only on today's generation but also tomorrow's. Fiscal responsibility requires a plan, requires a budget.

The House of Representatives and this committee deserves a lot of respect and a lot of admiration for doing just that, writing the budget. It is not perfect, trust me on that. If it is the budget that Jim Nussle would write, it might look slightly different than the budget that ends up leaving the committee.

But it is a compilation of the wants and the needs and the frustrations and the desires of the American people through their representatives. This committee has done its job, and for that it deserves a commendation. Not every committee in Congress has been able to write a budget, even the Budget Committee of the Senate.

So we begin our work to that end today, writing a budget. Today's budget needs to be written on three principles. We must prevail in the war against terrorism, principle No. 1, committing all of the resources necessary for that task.

Principle No. 2, we must provide for and enhance the security of our homeland. This is not a one-time job. It is a permanent and ongoing task, especially when we are trying to protect ourselves against evil doers, who spend all of their time calculating ways to terrorize and kill Americans.

Both of these, along with the other needs cited above, will require government spending and will result in continued deficits for a time. But what matters is that we don't lose control of spending. We must not commit to strategies that win the popular support today, only to balloon in costs that will be imposed on our own children and grandchildren.

And I would like to show you chart No. 6. This is what happens when you don't control spending. You can just see here the deficits will deepen without spending restraint. You have a deficit under the President's budget, there is no question about that. But if spending grows at the rate it has been growing just the average of the past 5 years, you can see that we will never get back to balance, but deficits will explode in the outyears. That is why controlling spending is so important to this task.

The third important principle that we have to build this budget on is helping to restore the strength and stability of our economy. According to last week's projection by the Congressional Budget Office, without action this economy will continue to limp along with unemployment rates at about 6 percent for the next several years. This is not acceptable. It is not acceptable to me. It is obviously not acceptable to the President. It is not acceptable to the families who are struggling to make ends meet. It takes a growing economy to protect jobs and opportunities, which restores Americans' hope so that they can make better lives through their own effort.

Our current situation is much like the situation that many families throughout the country are facing around their kitchen tables. When faced with tough times, they still buy the family groceries for the kitchen, but they don't cover the remodeling of the kitchen. So as we begin to construct this year's budget, we must adhere to the same principles that families deal with every day around their kitchen tables. We must control spending. Even though we have to borrow for emergencies, we must control our spending.

And with that I would like to turn to my friend, Mr. Spratt, for any comments he would like to make.

Mr. SPRATT. I thank the chairman. Director Daniels, welcome back. It is quite a different situation from when you first came here 2 years ago. Two short years ago the forecasters at the Office of Management and Budget, OMB, looked into their crystal balls and saw nothing but surpluses for the next 10 years and beyond. All together, $5.6 trillion in surpluses were forecasted.

Now, granted that was an accountant's or an economist's construct, but that was the forecast on which you based your economic policies, and in particular the tax cut that was enacted in June of 2001. If I could have chart No. 1.

During the last 2 years, the situation has deteriorated from a surplus, a cumulative surplus, including Social Security, over that period of time, of $5.644 trillion, to $3.133 trillion in July when you did your mid-session review in 2001. By February that was down to 739 billion, by July to 444 billion, and now this February, when we factor in your budget policies, the cumulative surplus will not be $5.6 trillion; it will be a deficit, a deficit of $2.122 trillion.

That means in 2 years we have seen a swing in the budget for the worse of $7.8 trillion, which is phenomenal. I will ask you later if you feel in any way chastened by this whole experience, if there have been any lessons that we have learned from it. Do we have the charts yet? OK, we got a technical problem.

Chairman NUSSLE. We won't take that out of your time.

Mr. SPRATT. The situation we are in now, according to the information you furnished us, using your numbers, is that the cumulative surplus before you implement your policies is $129 billion in the red. We have got right now, assuming none of the policies you propose were enacted, we have a deficit of $129 billion. That comes off of the table in your budget.

All together, your budget proposals on top of that deficit come to $1.993 trillion, and that is how you get the $2.122 trillion cumulative deficit over this 10-year period, 2002–11.

What is radically different about this year as compared to 2 years ago is that 2 years ago you could have made the argument, and did, that with a surplus apparent of $5.6 trillion, some of it should be given back to the American people.

We didn't argue with that. What we argued with was whether or not we would bet the budget on an accountant's or an economist's construct, this blue sky forecast that foresaw deficits this large. We said, let's take it step by step, have smaller tax cuts and see if this surplus is really going to materialize. You insisted, the administration insisted instead in taking a big bet on the expectation that that surplus could be realized.

You can call that negligence, miscalculation. What you say today in your materials that you have sent us is that you missed the estimation of the surplus by $3.174 trillion. Two years later, looking back, you say there never was—the surplus of $5.637 trillion, to that extent, to the extent of $3.2 trillion, did not materialize for economic reasons.

You don't break them down between technical and economic, you just say economic reasons. So in a sense, that is a misestimate of $3.2 trillion, and it is an acknowledgment that the surplus of $5.6 trillion, if it ever had any chance of materializing, won't materialize to that extent. It is really about a 2.4, $2.5 trillion surplus.

Now, the problem that you have got now is that you have more than spent already the more than $2.5 trillion adjusted surplus. By your own numbers, you spent $129 billion of what is left of a $5.6 trillion surplus after you adjust it for economic miscalculation. Adjusted for economic miscalculation is $2.463 trillion. You have spent, in tax cuts, in stimulus cuts, and in other enacted legislation, mostly for homeland defense and defense, $2.592 trillion, which is more than the surplus was in the first place. That is why you have got the $129 billion deficit beginning this year.

Now, what that means is that anything you propose in the way of new tax cuts, or anything you propose in the way of new spending initiatives is going to go straight to the bottom line. You can't offset it against the general fund, it has been exhausted, the surplus. You can't offset it against Social Security, you have fully spent and—borrowed and spent the Social Security surplus. You can't offset it against the Medicare surplus. It has been borrowed and spent. It goes straight to the bottom line. It gets charged up to the deficit. When we charge it to the deficit, we charge it to our children. They are the ones that will pay it.

I don't see anything in this proposed budget that convinces me that the budget will be—that the debt we are accumulating will be paid before our children inherit the burden of paying it themselves. So that is the problem that I have with the budget before us.

No. 1, we are going forward intentionally now, per your proposal, with additional budget deficits of $2.122 trillion. We are making that choice now. This is not a matter of misestimation or something like that. We know that every dollar we spend for these additional tax cuts or for additional benefits, whatever they may be, will go directly to the bottom line. So if we adopt this budget, we are willfully, wantonly and intentionally increasing the deficit by $2.122 trillion, your number, your budget, and that is the consequence.

Now, I understand all of the circumstances that give rise to this and don't hold you responsible for all of them. I do think that we cut way close to the margin with the initial budget in 2001. But let's leave that behind us as a problem that has already occurred and now has to be dealt with.

What I found troubling about your budget is I don't see any effort here to deal with it. I don't see any effort to develop a plan that will get us out of the hole that has been dug. Growth won't do it. You are assuming real growth of over 3 percent. I hope we attain it. But I can't imagine that we will get as much real growth over and above what you have assumed to take us out of a $2.1 trillion deficit.

Defense spending certainly isn't going to be the solution to it. It was in the 1990s. We were able to restrain defense spending after the end of the cold war, and that helped us get rid of the deficit. But defense spending we all know is going up. In fact, it is understated in this budget, understated in the regular budget and understated also if we have a war. We can't find anything here even for the expedition in Afghanistan now, any extra amount for that. So defense is understated in any event. It is going up. It is not coming down. It is not going to eradicate the deficit.

Nondefense spending you budgeted below inflation, around 2 percent a year. But once you will make the adjustments for homeland security and for a few favored programs, that means we will have to hold other programs to a percent, to 1.5 percent growth over 10 straight years. If you read any budget history, you will know how improbable that is.

So you have already assumed a lot of constraint on nondefense discretionary spending. Deficits are coming back. Before you get your hands around this problem, there is no way around it, you have got deficits as far out as you forecast. That means more national debt.

By our calculation the national debt will go up on your proposal from $3.540 trillion, debt held by the public, to just over $5 trillion. There will be a 50-percent increase. And also by our calculations, there will be a 50-percent increase in the debt service, the interest paid on the debt owed by the United States of America.

That becomes, Mr. Director, a new kind of debt, a new kind of tax. It is a debt tax that future generations will have to pay just to service the debt. And it becomes a real fiscal drag, because people pay taxes and see nothing in return for it. That is one of the great benefits that we achieved over the last 10 years. We have turned the one of the fastest growing accounts in the budget, interest on the national debt around, and brought it from $250-something billion down to about $170 billion. That will reverse itself under your budget. Interest on the national debt will grow about 50 percent due to the debt accumulation here over the next 5 years. That is going up. So that is not going to help us pay off the deficit either.

Medicare-Medicaid. The question is how much can we contain these two programs. You got about $100 billion each for growth in those programs over the next 5 years. They are not likely to be the sources of restraint.

So I am looking here and saying, where is the solution? You have got this problem. I think you would acknowledge this is a problem. I am sure, knowing you, that you don't, you don't enjoy presiding over a budget that is accumulating a surplus of $2.1 trillion. So where is the solution? And how do we derive a solution, particularly if you go forward with additional tax cuts?

If I can just have the chart that shows the total tax cuts? Back there. These are the tax cuts in the Bush agenda, the 2001 cuts, already made, the stimulus package, already done. The January 2003 growth package on top of that is $615 billion. Making permanent the cuts that were made in June of 2001 is $692 billion, and then we think you have to throw in the alternative minimum tax, because all of us are going to confront that issue, as the number of taxpayers who have to pay the alternative minimum tax rather than the posted rate goes from 2 million to 39 million, somewhere between 2 and 39, politically there will be no way around it, we will have to fix that.

The total amount of tax reduction, revenue reduction adjusted for debt service comes to $4.4 trillion. That has got to be part of the problem. And I think you are worsening the problem and putting a solution almost out of reach, making deficits intractable again, structural instead of cyclical with the budget proposal you have got.

I look forward to your testimony and to asking you further questions.

Chairman NUSSLE. Director Daniels, welcome back to the Budget Committee, and we are pleased to receive the President's budget and your testimony at this time.

## STATEMENT OF MITCHELL DANIELS, JR., DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. DANIELS. I thank the committee as always for the privilege of appearing. This week we do present the President's program for the next fiscal year. No such presentation lacks for long-term importance to the Nation's future, but few in our history have directed the Nation's public resources at more fundamental challenges.

The President plans to prosecute the war on terror, as he says, "relentlessly." There is no more effective way to protect Americans or, as we now say, provide homeland security than to root out terror and stop it before it can reach our shores.

The budget provides $380 billion for the war on terror, and the continued rebuilding of our national security capabilities. Spending on domestic homeland security is also given top priority, with spending rising at the fastest percentage rate of any category.

The President's third priority is to reinvigorate an American economy that has grown for 5 straight quarters, but at a rate he deems far too slow. To this end, he proposes a major growth and jobs plan.

Below these three overriding objectives, the President urges greater spending on a host of essential activities: Veterans' programs, education of our disadvantaged and disabled children, the alleviation of Africa's AIDS tragedy, research on a pollution-free automobile and many others.

The budget has returned to deficit, a phenomenon that pleases no one, but which ought not be misunderstood or overstated. Today's deficit, while unwelcome, was unavoidable and is manageable. In fact, given a sputtering economy, it reflects appropriate economic policy, as the President decided in advocating a bold economic plan.

The deficit's origins are no mystery. It was the product of a triple witching hour in which recession, war, and the collapse of a stock market bubble all coincided, presenting our country and government with a radical change of circumstances.

Since it has come up, let me pause to dispel a persistent fiction or, more accurately, misrepresentation. Note this fact. If there had never been a 2001 tax cut, if the President's opponents had been triumphant and no tax relief had been provided to the American people, we would still be experiencing triple digit deficits today. Let me repeat. If those who opposed tax relief in 2001 had succeeded and no bill of any size had ever passed, the 2002 budget would have been $117 billion in deficit, and the 2003 shortfall would have been $170 billion.

Even if we had never been attacked and incurred no cost of war or recovery from September 11, and no tax relief had become law, we still would have gone into deficit. There is no question about what got us out of balance. What we should be debating is the right way and the right pace for getting back in.

Deficits are not always unacceptable. The strongest proponents of balancing the budget continually make exceptions for war, recession and emergency, exactly the conditions we have experienced simultaneously. In other words, there are times when it is necessary for the Federal Government to borrow in order to address critical national priorities, and these are such times.

In proposing an aggressive economic growth plan, the President is consciously opting to accept somewhat greater borrowing in order to put more Americans back to work. He did so in the knowledge that today's deficit is moderate and manageable, moderate by any historical measure. At 2.7 percent of GDP, the 2004 shortfall will be smaller than in 12 of the last 20 years and less than half the largest deficit in that period. It is manageable, in fact highly so, in that the costs of debt service are extraordinarily low.

Just 5 years ago, interest payments took up 15 cents of every budget dollar. This year, thanks to the lowest interest rates in 40 years, it will be just 8 cents.

A balanced Federal budget is a very high priority for this President. It is not and cannot be the highest priority let alone the only one. He does not place it ahead of our national security or the safety of Americans from domestic terror or a growing, full-employment economy.

If a balanced budget were all that mattered, it would be no great trick to accomplish. By either CBO or OMB estimates, all we would have to do is stop where we are, hold our spending growth to inflation for the next couple of years. But that would mean no action to create jobs, no new action to defend our homeland, no further strengthening of our defenses and so forth. The most important objective in this context is economic growth, the wellspring of balanced budgets.

No one saw the last surplus coming, not 5 years ahead, not 3 years ahead or even 1. In fact, 4 months into the year of the first surplus, both OMB and CBO were still predicting a deficit for that year. A strong economy produced that unpredicted surplus and only a strong economy can bring a surplus back.

If we balance our priorities, we will balance our budget in due course. Our projections, which incorporate extraordinarily conservative revenue estimates, $55 billion below CBO's for this year alone—those projections see deficits peaking this year and heading back down thereafter. To hasten our return to balance, the President proposes to restore the system of spending controls under the recently expired Budget Enforcement Act. He asks the Congress to pass, along with this year's budget resolution, a reenacted BEA incorporating 2 years of caps, limiting discretionary spending to the 4 percent path that would match government's growth to the growth of the American families' income. That renewed statute should also reinstate the so-called PAYGO system that limits the budgetary effect of entitlement spending and revenue measures.

This committee and its counterpart in the other body have the first and fundamental role in helping the President decide the Nation's priorities. You also are the taxpayers' first line of defense against excess or misuse of the dollars which the government takes away from them.

On behalf of the President, thank you for your service here, for your leadership and restoring an orderly, effective budget process during 2003.

[The prepared statement of Mitchell Daniels, Jr., follows:]

THE PREPARED STATEMENT OF HON. MITCHELL E. DANIELS, JR., DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

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This week we are presenting the President's program for fiscal year 2004. No such presentation lacks for long-term importance to our Nation's future, but few in our history have directed the Nation's public resources at more fundamental challenges.

The President plans to prosecute the war on terror relentlessly. There is no more effective way to protect Americans, or, as we now say, to provide "homeland security," than to root out terror and stop it before it can reach our shores. The President's Budget provides $380 billion for the war on terror and the continued rebuilding of our national security capabilities. Spending on domestic homeland security is also given top priority, with spending rising at the fastest percentage rate of any major category.

The President's third priority is to reinvigorate an American economy that has grown for five consecutive quarters, but at a rate that he deems far too slow. To this end the President proposes a major growth and jobs plan, the third of his Presidency.

Below these three transcendent objectives, the President urges greater spending on a host of essential activities: veterans' programs, the education of our disadvantaged and disabled children, the alleviation of Africa's AIDS tragedy, research on a pollution-free automobile, and so on.

The budget has returned to deficit, a phenomenon that pleases no one, but which ought not be misunderstood or overstated. Today's deficit, while unwelcome, was unavoidable, and is manageable. In fact, given a sputtering economy, it reflects appropriate economic policy, as the President decided in advocating a bold economic plan.

The deficit's origins are no mystery. It was the product of a triple witching hour in which recession, war, and the collapse of a stock market bubble coincided, presenting our country and government with a radical change of circumstances.

Let me pause to dispel a persistent fiction, or, more accurately, misrepresentation. Note this fact: If there had never been a 2001 tax cut, we would still be experiencing triple digit deficits today. Let me repeat: if those who opposed tax relief in 2001 had succeeded, and no bill of any size had ever passed, the 2002 budget would have been $117 billion in deficit, and the 2003 shortfall would have been $170 billion.

Even if we had never been attacked, and incurred no costs of war or recovery from September 11, and no tax relief had become law, we still would have gone into deficit, as a consequence of the recession and the popped revenue bubble. There is no question about what got us out of balance; what we should be debating is the right way, and right pace, for getting back in.

Deficits are not always unacceptable. The strongest proponents of balanced budgets routinely make exceptions for war, recession, and emergency exactly the conditions we have experienced simultaneously. In other words, there are times when it is necessary for the Federal Government to borrow in order to address critical national priorities.

These are such times. In proposing an aggressive economic growth plan, the President was consciously opting to accept somewhat greater borrowing in order to put more Americans back to work.

He did so recognizing that today's deficit is moderate, and manageable. It is moderate by any historical measure: at 2.7 percent of GDP, the 2004 shortfall will be smaller than in 12 of the past 20 years, and less than half the largest deficit in that period. It is manageable, in fact highly so, in that the costs of debt service are extraordinarily low. Just 5 years ago, interest payments took up 15 cents of every budget dollar; this year, thanks to the lowest interest rates in 40 years, it will be just 8 cents.

A balanced Federal budget is a very high priority for this President. It is not, and cannot be, the highest priority, let alone the only one. He does not place it ahead of our national security, the safety of Americans from domestic terror, or a growing, full employment economy.

If a balanced budget were all that mattered, it would be no great trick to accomplish. By either CBO or OMB estimates, all we would have to do is to stop where we are, to hold our spending growth to inflation for the next couple years. But that would mean no action to create jobs, no new action to defend our homeland, no further strengthening of our defenses, and so forth.

The most important objective in this context is economic growth, the wellspring of balanced budgets. No one saw the last surplus coming: not 5 years ahead, or three, or even one. In fact, 4 months into the year of the first surplus, both OMB and CBO were still predicting a deficit for that year. A strong economy produced that unpredicted surplus, and only a strong economy can bring a surplus back. If we balance our priorities, we will balance our budget in due course.

The costs of a potential conflict in Iraq are not included in this submission. We all fervently hope that no such event will prove necessary, but if it should, we would present to the Congress immediately a request for the funds estimated to be required to enable a decisive victory, a secure and compassionate aftermath, and the replenishment of stocks and supplies to prewar levels.

Our projections, which incorporate extraordinarily conservative revenue estimates, see deficits peaking this year and heading back down thereafter. To hasten our return to balance, the President proposes to restore the system of spending controls under the recently expired Budget Enforcement Act. He asks the Congress to pass, along with this year's budget resolution, a reenacted BEA incorporating 2 years of caps limiting discretionary spending to the 4 percent path that would match government's growth to the growth of American family income. That renewed statute should also reinstate the so-called PAYGO system that limits the budgetary effect of entitlement spending and revenue measures.

Finally, no discussion of this or any future budget should take place without serious examination of the real fiscal danger facing our Republic. We will debate the right level of imbalance for this year and next, as we should. We will argue over the right amounts to be employed in defense reconstruction, or economic growth measures, or fighting the scourge of AIDS, as we must. But, from a financial stand-point, these are small matters compared to the looming, unfunded liabilities of our huge entitlement programs.

The unfunded promises of Social Security are some $5 trillion, more than the entire national debt outstanding. The figure for Medicare is even more staggering: its promises exceed its future receipts by more than $13 trillion, a figure more than triple the national debt and 40 times the deficit we will run this year. We cannot conceivably tax our way out of this dilemma. Only sustained economic growth, coupled with thoughtful reform of these programs, can secure to future generations the same degree of protection, or more, that seniors enjoy today.

This committee, and its counterpart in the other body, have the first and fundamental role in helping the President determine the Nation's priorities. You also are the taxpayer's first line of defense against excess or misuse of the dollars which the government takes away from them. On behalf of the President, thank you for your service here and for your leadership in restoring an orderly, effective budget process during 2003.

Chairman NUSSLE. Thank you, Director Daniels. My first question is a pretty simple one.

How does the President of the United States justify proposing running deficits for at least the next 5 years and, very much likely, a lot longer?

Mr. DANIELS. He justifies this by placing a balanced budget high on his priority list, but not at the top, Mr. Chairman. As I made mention, there is a fairly straightforward path to balance if that is all we really cared about—if we cared about it more than the successful prosecution on the war of terror, if we cared about it more than further action to spur economic growth in particular.

Let me show a slide that might help illustrate this. No. 1, everyone here understands the concept of a baseline, and this shows if we were to continue government at its present level and inflate spending for inflation, but only inflation, and do nothing new, we could return to balance within a couple of years. And as I said, if this were the sole objective of this administration, if it were the wisest course of policy, then there is a course available to us.

But let us talk about what you would not do. You would not act to invigorate the American economy. You would not act to further strengthen our defenses or extend the war on terror or build a homeland security system. You would not act to improve our Medicare system—genuine catastrophic coverage, more choices, prescription drug coverage—and you would not act on a host of other fronts on which the President believes the Nation ought to step forward boldly. You would not continue growing our investment in education, you would not attack the tragedy of AIDS in Africa and so forth.

These are the choices the President has made. These are the choices that he believes justify the budget he has laid out.

One last comment: As has been already amply illustrated, the course of prediction is a very hazardous one. No one saw a surplus coming. No one saw how fast a weak economy, a popped stock market bubble and a terrorist attack would take it away. If we make the right choices, particularly if our economy strengthens and strengthens quickly, we may see some substantial improvement in this picture and well within the 5-year time frame.

Chairman NUSSLE. Using your chart, it appears that the economic growth package that the President has built into this budget certainly gobbles up a lot of the resources that could be used to get back to balance.

Let us just jettison that package. Wouldn't we get back to balance much sooner?

Mr. DANIELS. One doesn't know because then you are betting that today's economy will grow and will in fact turn up the revenue that we are now projected to. It has been underperforming in that respect. That is one reason we at OMB have produced the lowest revenue estimate in the field for this year and next.

The President's choice, you are quite correct. If all you cared about was the accounting and the projection of the Nation's books for the next year or two, you might stay put on the economy we have. The President wasn't satisfied to do that. He is not satisfied with employment at the level it is. But those who want to quarrel with his program, I think, have some obligation to step forward with their own.

Chairman NUSSLE. With regard to long-term obligations such as Medicare and Social Security, is the growth package or growing economy not an important factor to the long-term solvency of both of those important programs?

Mr. DANIELS. Yes. Absolutely. Just as there is no way back to balance without a strong economy that generates more revenues, there is certainly no way to fund even the current promises of Social Security or Medicare without very strong economic growth. And if we do intend to modify those programs, it may only make that, the need for sustained, long-term, strong economic growth, more important.

Chairman NUSSLE. Why do the budget projections that you provide us from OMB today—why do they not assume or contemplate the beneficial effects of an economic growth package in the calculations? Some would refer to that as possibly dynamic scoring. Why don't you use dynamic scoring or why don't you make an assumption that the economic growth package will actually stimulate economic growth in years to come?

Mr. DANIELS. As you know, Mr. Chairman, we continue to abide by the convention that ignores the effects of changes in tax law or fiscal policy. This, we know, is the—is an inaccurate way to approach it. No economist that I know believes that you can lower taxes or tax rates or provide new incentives to investment and not create some new economic activity and eventually some new revenue to the Federal Government.

People debate honestly whether that feedback effect is 30 percent or 40 percent or more. We know it is not zero. But observing the conventions that we found on our arrival, we continue to use that here. So any positive effect—any positive effect from any economic package that might pass this Congress would be upside to those numbers.

Chairman NUSSLE. Let me move on to what I believe are the important three principles in building a budget.

First, with regard to our national defense and the war on terrorism, why is there not even an estimate in the budget or a placeholder, if you will, for potential war with Iraq?

Mr. DANIELS. The fundamental reason is that we all hope earnestly there won't be a war with Iraq and that event could be averted today or tomorrow or any day if Saddam Hussein would simply respond to the 11 years of demands by the world community that he disarm.

If the President is forced to act, we will be ready. And as we have in the past, we will come to the Congress for one-time supplemental spending on an order that we think is adequate to cover the decision the President may have taken.

Chairman NUSSLE. Turning quickly to homeland security, what is the status of getting the Department of Homeland Security not only up and running, but fulfilling a budget commitment within this budget in order for it to be successful? What is the status within this budget with regard to homeland security and the new department?

Mr. DANIELS. We are off to a fast start in that the Senate—and the President is very grateful—did confirm Secretary Ridge and the first of his fellow appointees. But there is no time to waste. And while the President seeks substantial new funds on top of the major new commitment already made, let us recall that we doubled homeland security spending in 1 year. We will have tripled it in just over 3 years if this budget is enacted.

And while we invest massive new amounts of money in these activities, it is really important and equally important that we organize well and act quickly and decisively.

So we seek the help of this committee and every other Member of Congress in removing obstructions, removing barriers to the new department getting organized, moving people, moving dollars to the places where they will reduce the risk to Americans the most.

Chairman NUSSLE. Finally, let me turn to Medicare.

It appears in this budget proposal that the President is adopting the—at least the tactic or contemplates a plan similar to what the House of Representatives considered last year, but the details of the Medicare proposal were left out.

Two questions: First of all, is that the contemplation of a package that might be similar to what the House of Representatives put in its budget in previous years? And No. 2, when might we expect a proposal from the President with regard to Medicare and Medicare modernization?

Mr. DANIELS. I think you can expect a proposal within a very short time. I think it will bear some similarities to each of the plans that was considered in the last Congress, but have its own distinctive features, as it must. The President will insist on a plan that widens choices for seniors, including the choice to stay exactly with the coverage they have if that is their preference; a plan that makes—takes careful account of the needs of our poorest seniors and protects them and affords them greater coverage that they can afford; and also it keeps an eye on the long-term obligations that are inherent in the Medicare program so that we do not unduly exacerbate the unfunded liability problem we already face.

Chairman NUSSLE. Let me end by just suggesting to you that we have had a good partnership with regard to holding the line on spending, even without a budget, a budget passed as a concurrent resolution this last Congress. The House Budget Committee has worked very closely with you and with the administration to enforce spending restraint.

Part of the success or failure of the plan that you have proposed depends on the successful completion of the process from 2003 fiscal year appropriations. We understand that they are in the final throes, if you will, of that negotiation. I would encourage you to continue to hold the line on the proposals that the administration has made, as well as the House of Representatives, at $751 billion for discretionary spending and just report that we hope that that is also done in a very timely manner.

We cannot successfully move on with this budget unless or until we are able to complete the appropriations process that was, I believe, irresponsibly thwarted as a result of Senate inaction last year. So I would hope you would continue to hold the line in that regard.

Mr. DANIELS. It is the President's intent, Mr. Chairman, and he appreciates your support.

Chairman NUSSLE. With that, I turn to Mr. Spratt.

Mr. SPRATT. Thank you, Mr. Chairman.

Mr. Daniels, you were quoted as saying a couple of weeks ago, we have returned to an era of deficits, but we ought not hyperventilate about this issue—your word.

Let me show you a chart that takes my breath away. Maybe I am not hyperventilating, but it leaves me a little breathless. And that simple table there on the wall, which shows the on-budget deficits, the deficits in our basic general fund budget for the next 5 years, which is the full forecast time frame of your budget—should be 10, but it is 5.

But looks what happens. This is why we despair when we look at this budget, because we don't see relief in sight. It stays over $400 billion this entire time frame. Starts at 468 and ends at 433, just below a half-trillion dollars a year. And the total debt accumulation resulting from that is $2.14 trillion.

Let me show you again on another chart that I was trying to call up, the bridge chart. This is taken from your budget presentation. It shows how you restated the surplus for economic adjustments by $3.174 trillion, so that the adjusted surplus is $2.463 trillion.

It further shows that enacted policies taken today already put on the books and put into effect, two-thirds of which constitute tax cuts, have more than spent the adjusted surplus. You have got $2.5 trillion actually spent out of an adjusted surplus of $2.4 trillion, so much so that at this point in time, the cumulative deficit for the next 10 years, 2002–11—that time frame is used to keep it consistent with your original budget—is $129 billion in deficit.

Now, to get to those big numbers I just showed you before, the general fund deficits, the on-budget deficits of 438, $468 billion, nearly a half-trillion dollars a year to get there, you have got to implement the policy proposals you are now making. You are standing at a real threshold. If you go forward with those proposals, we can have $2.1 trillion in additional debt. If you stop here and hold the line here, you can stop at $129 billion.

So what you are doing, to restate my point, is voluntary. This is not something that fell out of the sky. This is not something that happened to us. This is a conscious policy decision that is being made at this point in time. We are $129 billion in the red right now. If you put forward your budget proposals that total up there on that chart, which come from your budget—they come to a total $1.99 trillion. Add that to 129 and you get the $2.1 trillion that you are going to add over this time frame.

So that is your policy choice, correct?

Mr. DANIELS. At least we have a choice, Congressman.

And let me start by saying, I don't know and you don't know anything about what the effects of this will all be over 10 years. We have learned this over a 7-year failed experiment to look out this far. Our forefathers were much wiser and never looked out more than 3 years and then, for a quarter century, 5 years.

But the starting point for any such discussion is, none of us knows any more than we knew 2 years ago now that we were already in recession, that the stock market bubble would continue to deflate, taking revenues with it, nor that we would be at war within 9 months.

Mr. SPRATT. But one thing we do know, 77 million baby boomers are marching to their retirement as we speak. And they begin to retire in 2008. We have got a choice now as to whether we prepare ourselves for that, which we were trying to do a couple of years ago by paying the debt held by the public, or whether we add 42.5 trillion more debt on top of the debt we already owe in preparation for their retirement, which would demographically change this budget like nothing we have ever seen before.

Mr. DANIELS. I commend you very much for drawing our attention to that. That is something we speak about at length in the budget. It is the real fiscal danger of the long-term health of this country and much more so than the outcome in any one fiscal year—this one, next one or any time soon.

But let me go back. You point out that the budget we present does include voluntary choices. Indeed it does. And for all the speeches I hear when I come here, I never hear a plan different than the one the President proposes. And I am still waiting to hear, which of the things he wants to do, given the situation we are facing, do you believe are unwise, are less important than chasing back toward a balanced budget quicker. It is a legitimate debate, but let us have it.

Would you not act to spur the economy? I believe you are the cosponsor of a bill that has a greater effect in the first 2 years than the one the President has suggested. Would you not act to extend the war against terror? Would you not act to strengthen our homeland security? Those are very legitimate points, but those are the issues that we ought to move on and join.

Mr. SPRATT. We did indeed make such a proposal, but it was marked by this characteristic. We had short-term stimulus and long-term balance. We had a short-term tax cut that put as much impetus into the economy right now, in 2003, as we could, $136 billion worth; but we restored—those were short-term so that in the long run, as the economy got better, the bottom line of the budget would get better, too. Deliberately, by design, it is done that way.

Yours gets worse. We go out in time. The economy gets better. We are assuming pretty robust growth and the bottom line is still there; it is still red as it can be.

Mr. DANIELS. Again, I don't know and you don't know. It depends entirely on——

Mr. SPRATT. I know what I read in your budget forecast, and I guess that is your best judgment at this point in time, and you are willingly incurring another $2 trillion in debt with the policy choices you are making.

Mr. DANIELS. Again, it makes no claim and takes no credit for any economic improvement that might come as a result of a balanced program that the President and many economists he consulted with think is really good not just for the short-term, but the long-term problems facing the country.

Mr. SPRATT. One last question. Do you think it is good fiscal policy to borrow money in order to cover the revenues lost to tax cuts?

Mr. DANIELS. It depends on what you use it for, Congressman.

And you know, let us talk a little bit about those revenues that either subconsciously, or perhaps consciously—you often talk about our “spending.” We “spend money” when we leave more in the pockets of the American taxpayer. I am not sure that is how most taxpayers think about it. You know that money is not gone. There has been very little effect of the President’s 2001 tax relief already. He would like to accelerate it into this year because we think it would have an important economic effect, but very little of that has happened.

Also, we are still waiting—if it is such a bad idea to leave more dollars to the American taxpayer in that way, where are the proposals? Bring them on to repeal it. And by the way, which portions would you repeal? The marriage penalty, would you reinstate that? Would you not extend greater child credit—tax credits? Would you repeal the 10 percent or——

Mr. SPRATT. Before you get to that—you are pushing two additional tax cuts now that total $1.3 trillion in additional revenue losses. Leave aside what has already been done.

Why are you pushing two additional tax cuts of the same size together, that are larger really than the first tax cut, when we don’t have any surplus against which to offset it?

Mr. DANIELS. The President believes that the most important thing we can do is put more people to work now. I don’t know, and again no one here knows, what the long-term effect would be—the static, no-effects, no-feedback figure we have for the first 5 years, a little over $400 billion—and he feels that is a reasonable investment if it puts more Americans back to work and eventually begins to generate more revenue for the Treasury.

Mr. SPRATT. Thank you for your testimony.

Chairman NUSSLE. Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman.

Mr. Daniels, let me first of all say that it is always tough to be the first one out of the box. And I think your job is especially difficult today because in the absence of any other plans, I think all Members on both sides of the aisle will tend to be a bit more critical.

But I must say, this is a tough pill to swallow. And you know a lot of things have changed in the last year and a half. I think most of the members of this committee and, frankly, the entire Congress are proud of the fact that for the last 5 years, we actually balanced the budget; we paid down almost half a trillion dollars of debt. I think there are still a lot of people here who believe that this is a very high priority for this committee and, ultimately, for the Congress.

I also believe that the American people have an expectation that we will do everything we can to try to eliminate wasteful Washington spending and balance the budget.

As I look at your budget—and again, I don't want to be overly critical, because I suspect we will probably bounce around, wrestle back and forth and have a lot of heated debates in this committee and in the Congress; and as we begin to look at the alternatives, it may well be that this budget looks better as we go forward. But as of today, it is a difficult pill to swallow.

Essentially what I read in your budget is, you say "yes" to more defense, you say "yes" to more homeland security, you say "yes" to Medicare reform and prescription drugs and you say "yes" to tax relief. I am also heartened by the fact, though, that you talk about limiting the growth in the Federal budget to the growth in the average family budget, but I am not certain that your numbers quite square with what the average family budget is actually doing out there.

You are talking really about a growth of something like 4.5 percent. The CPI right now is 2.2 percent. There are many families in my district that are happy to get a 3-percent increase in their family budget. I am sort of curious, how do you come up with this family budget? Where is your mythical family budget and how do you square that with what I see happening in my district and the numbers coming from the Bureau of Labor Statistics?

Mr. DANIELS. There were a number of measures that we looked to when the President gave us this guidance, and they all came in around 4 percent.

I completely agree with you that averages can be misleading, and for everyone at that average or above it, there is somebody below it. And it is exactly those families the President has in mind when he proposes a jobs and growth initiative for this year. But measured a variety of ways—and I will be glad to furnish you some—we were struck about how they all did center. Most of these are forward looking, what is expected this year and next; and when he gave us that guidance, we were struck by how consistent a variety of approaches are in reaching about 4 percent.

Mr. GUTKNECHT. Let me just editorialize on another point that I have been working on. And I do agree with the administration that the time has clearly come, and perhaps it is past due, to actually do something about reforming our Medicare system. And frankly, I think we need to do something to make certain that those seniors who are currently falling through the cracks have something to protect them in terms of the high cost of prescription drugs.

My concern is that the administration continues to refuse to look at what I think is one of the fundamental problems, and that is that Americans pay far too much for the same prescription drugs relative to the rest of the free world. There are plenty of studies available, and I would encourage you and OMB and the people at FDA and others to take a serious look at what Americans pay for those drugs versus what people in Germany, France, Canada, Japan, Mexico, any of our other trading partners—look at what we pay for those drugs versus what they pay.

If you are serious about doing something about prescription drugs, you ought to do something about the price that Americans pay. We certainly should pay our fair share, but we pay far more than our fair share.

Let me just say in terms of tax relief: I supported the tax plan, and frankly it was a different universe then, but still I thought it was the right thing to do then and I believe it is the right thing to do now. But I think we should at least acknowledge—and according to the numbers that I have, the average American family today—last year, 111 million American taxpayers received an average of $634 worth of tax relief.

As we go forward, I am not certain—it is going to be very difficult, for me at least, to justify to my constituents that we need additional tax relief at a time we are trying to fight a war and we are trying to provide prescription drugs and we are trying to improve domestic security. I am not sure my average taxpayer out there says, you know, what I really need is another $3 million in tax relief.

I think as we go forward, there is going to be a lot of arguing in this committee and in the Congress. It may well be that this budget will look a lot better after that has been done, but right now it is difficult for us to justify borrowing an extra trillion or 2 trillion, whatever the number is, from our grandchildren in order to say "yes" to all of these national priorities.

I yield back.

Mr. DANIELS. Fair point, Congressman, and I think that you pose it in the right way; that is to say, these are choices. That is what a budget is. That is what governing is about.

It is absolutely true that if one believes—and there were many who counseled the President last fall to believe that—let us leave well enough alone; the economy is perhaps faltering here and there, but it is not bad. Signs are that it is going to improve so lets take a chance. There may be Members here who do see it that way. If you do, it is true that the deficit for next year would be more than a third smaller, would be much, much smaller than we project and much smaller than the year we are in, but that is a choice. And having studied it very carefully, the President chose jobs and economic growth and was not willing to take the chance that, well, they could leave well enough or maybe not well enough alone.

Chairman NUSSLE. Mr. Moran.

Mr. MORAN. Mr. Daniels, you are a nice guy. I like you personally.

Mr. DANIELS. Mutual, Congressman.

Mr. MORAN. Well, don't be so fast.

And you are a good, loyal soldier. But the price of that loyalty is going to be that you are going to have to accept some responsibility for the worst management of this Nation's economy in American history. And I say that because the stock market has lost $5 trillion in value since your President took office.

And it is not all because of 9/11. As Allan Sloan says in The Washington Post today, it fell faster before 9/11 than it has subsequently. This first 2 years is worse than during Herbert Hoover's—

the first 2 years of his administration during which the Great Depression occurred. And yet we have lost more equity value during these 2 years.

Now, what you have chosen to do through your tax cuts and other spending, some of which, a small amount of which is fully justified in terms of homeland security, but you have reversed $5.6 trillion of surplus that was estimated for the next 10 years when you took office. We now have more than a $2 trillion deficit. So that is almost an $8 trillion turnaround, $8 trillion fiscal reversal. And, of course, I am using 10-year numbers because many of your tax cuts don't even take effect until 2010. So if you are willing to do that, obviously you have looked out 10 years to know what the effect would be.

Now, what you have done: In total, you proposed that we cut $4.4 trillion of revenue in tax cuts. You are proposing that we spend all of the Social Security Trust Fund surplus, $2.2 trillion. You have got triple-digit deficits for as far as the eye can see. And yet, you said, both you and President Bush said, and I am quoting, there is a strong, bipartisan consensus to preserve very large surpluses as a threshold condition of public finance. In fact, the President's budget said that such budget surpluses should be, in quotes, "at least the size of the Social Security surplus."

Even as recently as last February, the White House Web site said we are going to keep the promise of Social Security and keep the government from raiding the Social Security surplus. And yet when the baby boom generation starts to retire in 2008, doubling the number of retirees, you are going to have worked up the public debt to $5 trillion, adding $4 trillion more in public debt.

If that is not the worst economic management, I can't understand what is. And yet you are going to tell me—instead of recognizing that when you are in a deep ditch, you stop digging; you are going to tell me that we need economic stimulus. And yet your $1.5 trillion tax cut provides only $31 billion of economic stimulus this year.

That is not going to stimulate the economy. What you are doing is cutting revenue in outyears where, by your own admission, we don't know what the situation is going to be. It is the least conservative, most risky budget that I have ever seen. And I used to work within a Republican administration on the budget many years ago and, you know, I really can't believe this.

So what I am going to ask you is, doesn't the Republicans' current claim that chronic, long-term budget deficits do not harm the economy contradict decades of Republican statements to the contrary? Didn't the Contract With America insist that we amend the Constitution to prevent just this kind of multiyear deficits that you are now predicting and proposing?

If you would like to respond, Mr. Daniels.

Mr. DANIELS. And I still like you.

First of all, you used the right word when you talked about the fact that the surpluses we hope to see were estimated. They were estimated. And Congressman Spratt and members of this committee, I think we all agree, we had to be very cautious in accepting those. These are estimates we inherited. They were not invented by this administration. They were just the same as the ones that our predecessors and outsiders all saw at the time.

Mr. MORAN. But you used them for the tax cut, to justify the tax cut.

Mr. DANIELS. Point well made. We used them. However, at that time, we said we couldn't trust them. We thought we should reserve—and we did, $842 billion—some 15 percent of the estimate as a buffer, as a protection, in case we were wrong. We didn't realize how much reserve we needed to take. None of us did.

Now you talk about the economic performance. The stock market decline you are talking about began in March 2000. Industrial production began to go down that year. Unemployment began rising that year. The recession was on in the first quarter of 2001. So we have to be a little careful where we assign blame, if any is to be assigned, for the economic recession, which is the overriding factor, along with the collapse of the stock market bubble, in changing that estimate from where we hoped it would be to something much less than half as big.

Mr. MORAN. The difference is, we wouldn't have worsened it with the tax cuts.

Mr. DANIELS. On that score, again I would simply invite you to bring a plan forward. The money has not been, in your usage, "spent." Almost all of it remains with American taxpayers; and any year—this year, next year, any year—that it seems a wise course to repeal that tax cut to raise taxes on the American people, if that is really the right thing to do for our economy, really the right thing to do fiscally, then please propose it and let us have a good, honest debate.

I do want to remind you, when you look more closely, the elements of tax relief that have all—most of the money—are for the low bracket, the move to the 10 percent bracket, the repeal of the marriage penalty and the increase in the child tax credit. That is where all the money is. And if you are not prepared to go after that, then I am not sure what your complaint with that bill is.

Mr. MORAN. The biggest piece of your tax cut is in the elimination of the double taxation on dividends. I don't want to give myself a tax cut that my kids are going to have to pay for.

Chairman NUSSLE. The gentleman from Pennsylvania, Mr. Toomey.

Mr. TOOMEY. Thank you, Mr. Chairman.

And, Mr. Daniels, thank you and thank you for your persistent and even valiant effort on behalf of the President to restore some kind of fiscal discipline to Federal Government spending.

I am glad to hear my colleagues on the other side have such a passionate concern about the size of the deficit. It gives me hope that they will join me in working to try to cut some spending in this budget and throughout the appropriation process.

But while we are talking about deficits, I want to follow up on a point, if I could, if we could bring up chart No. 2. I did a little quick math here, and it is probably not perfect, but I think I am in the right ball park. I looked over the period of time that represents the biggest economic expansion in our Nation's history, from 1983–00 when we produced more wealth, more jobs, had more economic growth than ever before in our Nation's history. With one minor interruption in about 1991 or so, we had an almost uninterrupted, extraordinary period of economic growth. During that period, if you looked at the average annual deficits in those years, it comes out to about 2.7 percent of GDP.

And I just wanted to ask you, Mr. Daniels, in the budget that the President has proposed, what is the deficit as a percentage of GDP for next year, approximately?

Mr. DANIELS. 2.7 percent.

Mr. TOOMEY. So it is about exactly equal, just about, to the period of the most extraordinary period of sustained economic growth we have had.

Is it in your opinion, during the 17 years of this extraordinary growth, would it have been wiser for us to have raised taxes in an effort to try to diminish that deficit? And if we had done so, do you think we would have the kind of economic growth we had during that period?

Mr. DANIELS. I doubt it, Congressman, just as I doubt that higher taxes now would be good for jobs or good for the economy or also good for the budget. Again, it is an honest debate that we can have.

I think what your chart reflects, and it is accurate, is that there is no—there is certainly no correlation anyone can find between deficits, at least at that level or surpluses at the level we saw for 4 years, and an economic outcome.

Mr. TOOMEY. And further to that point, some argue that when you have a deficit—you know, assuming there is a level of spending that we can't get below for a moment, which is another issue; but given that, some argue that when you finance it in part with the deficit, even at the magnitudes we are talking about, very modest magnitudes relative to the size of our economy, that that somehow crowds out private investment capital. And my question is, is there any evidence that crowds out investment capital and has any more deleterious effect on the economy than confiscating that money from the private sector through the taxes?

Mr. DANIELS. No, there is no such evidence. That is not to say that there is no level anywhere at any time that might not begin to have that effect.

And again, there is no disagreement that we want to control spending, control deficits and move back toward balance. We are in agreement with the passionate arguments made here already today. But it is certainly so that at the level of deficit we are now experiencing, you can't find any effect on interest rates. And in a multi-trillion dollar world capital market, I guess it would be surprising if you did.

Mr. TOOMEY. It seems to me the evidence does suggest, from a variety of economies and long periods of time, it is the total amount of government spending which is a better measure of the misallocation of capital in our society, because a large portion of it is absolutely necessary; but on the margin, what we are doing is allocating capital for political purposes and through a political process rather than allowing the free people engaging in the marketplace to allocate capital according to what they need and what their desires are.

So my big concern is that we are growing spending too much. I think it is too much spending that is the cause of these deficits.

And I am a little disappointed that this budget proposes that we grow spending at a rate that exceeds the expected rate of growth of the economy, because if we do that over long periods of time, obviously by definition the government grows in relation to the economy.

I look particularly at, for instance, what is allocated for the Labor, Health and Human Services and Education component. As you know, in the period from 1996–02, we doubled the size of that, the second largest appropriation bill, I think. And yet, in this budget, it is proposed that that one grows by 3.8-percent higher than expected economic growth.

Are you open to working with Congress to find a way to cut back in some of the non-defense, non-homeland security areas, so we could trim this back down to a level of total growth that does not exceed the total growth of the economy?

Mr. DANIELS. We always welcome constructive thoughts about how we could limit spending and limit deficits. To be honest, although we certainly welcome the concern expressed here about red ink and the budget, we tend to wait expectantly for suggestions about how we can control spending better. Many of the same folks who profess to be distraught about imbalance in the budget are simultaneously very forthcoming with ideas about how to spend more money.

Anyone who thinks we have overlooked something and the President proposed too much spending, please, I will leave my number.

Mr. TOOMEY. You will get a call.

Mr. DANIELS. Let me just point out that in last year's budget, no bones about it, the President proposed a lot of new spending, more than he ever expected to, more than he would have preferred to, 9 percent on the discretionary line. Everyone knows what that was about. It was about the repair of damage, about the recovery from 9/11, about rooting out a terrorist haven in Afghanistan, et cetera, and building a homeland security network.

All of us wish we never had to ask for or spend that money. But having done so, it is time, and it should be possible for us, to decelerate. We can't continue at that rate, and I suspect that we will hear more from people who think that 4 percent is too little than from folks like you who would like to see it come down further.

Mr. TOOMEY. Thank you.

Chairman NUSSLE. Let me announce that all members will be permitted to put a statement in the record, if I didn't say that before. I would ask unanimous consent that that be done.

[The prepared statement of Artur Davis follows:]

PREPARED STATEMENT OF HON. ARTUR DAVIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. Chairman, Director Daniels, I thank you for the opportunity to offer my remarks on the President's budget.

Mr. Chairman, I represent a district that has portions of it lodged in the 19th century and completely forgotten in the context of progress as we know it in United States.

It is the third poorest congressional district in the country. Six of the poorest hundred counties in the United States reside in Alabama's Seventh District. We have a poverty rate that hovers near 40 percent. We have an infant mortality rate that is higher than in half the countries of the world. Consider every major index of social misery and persistent poverty, Mr. Chairman, and the Seventh District of Alabama will stand at the top of them.

My constituents look to the President's budget to assess the President's priorities, and we are deeply disappointed by what we see.

Unfortunately, Mr. Chairman when I look at the President's budget I see that we are borrowing trillions of dollars from our children's future to give away to our Nation's most fortunate; while taking away the very money that will help working families achieve the American dream.

I see nothing that can help the impoverished people of my district to lift themselves out of poverty. Instead, the President wants to completely eliminate the Empowerment Zones and the Enterprise Communities that are giving businesses vital incentives to locate in Jefferson County, Sumter County, and in nine other Black Belt counties desperately needing jobs. This misguided effort will level businesses and kill jobs. This budget will depress economic growth for a region already in depression.

Looking at this budget, I see very little that will help the families who live in counties completely cut off from major transportation networks. Instead, we are cutting by $2.5 billion the very transportation funding that will bring the interstates—and vital industries and jobs—to my struggling district. Without access to highways, my district will continue to struggle to attract industry.

The President has called for eliminating the HOPE VI program, which transforms dilapidated housing communities into livable and affordable neighborhoods. In the city of Birmingham, the President also proposed to cut the heart out of the Federal effort to expand housing opportunities. A HOPE VI project at Tuxedo Court is awaiting its last installment of $20 million to transform this urban community into a thriving neighborhood. How can the President give over $300 billion to wealthy investors (who most certainly have housing they can afford), and not spare $20 million for the mothers, fathers and children of Tuxedo Court?

How can he not spare any funding for rural housing assistance—a program whose funding he completely eliminated?

While 12 community health clinics have closed in the last 4 years, the President proposes some $52 million in rural healthcare initiative cuts, a painful blow in my district. In a region where 25 percent of the children have no access to health insurance, the President cuts the Child Health Insurance Program.

Mr. Chairman, we are cutting taxes by trillions of dollars and creating deficits of trillions of dollars. In the next 10 years, we will pay a trillion dollars in interest on the Federal debt that this President is creating. And yet, in all of this, the President's budget is blind to rural America's more pressing needs. The vulnerable are consistently sacrificed, and no where is this more evident than in a district such as mine.

This is unacceptable. We must reorder our priorities during this time of economic recession to assist struggling families, struggling businesses, and struggling states.

In the summer of 1999, Mr. Chairman, then-candidate Bush rebuked his Republican allies in Congress by stating, "They shouldn't balance their budget on the backs of the poor." I call upon the President now to prove that his words were more than election-year rhetoric. Mr. Chairman, I call upon the President to stand up for the ones who cannot stand up for themselves and put forward a budget that fairly meets the priorities of our great Nation.

Thank you, Mr. Chairman.

[The prepared statement of Adam Putnam follows:]

THE PREPARED STATEMENT OF HON. ADAM H. PUTNAM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman, I am pleased that we have convened today to receive the Fiscal Year 2004 Budget from the President of the United States. I am humbled and honored to be here today with you, Ranking Member Spratt, and the rest of the Committee, to begin the process of reviewing and passing a budget for our country. I would like to thank the Director of the Office of Management and Budget Mitch Daniels for joining us to discuss in detail the President's budget. I am confident that with a budget which holds spending growth to 4 percent, the same rate of growth as the average American families' paycheck, we can act in a fiscally responsible manner while also giving the President the tools he needs to strengthen America's future at home and abroad.

"The President has presented a bold plan to fund America's priorities while maintaining our strength and stability at home and abroad," said Putnam. "This budget reflects two realities. First, we have an obligation to defend our homeland from terrorists who want to attack us. Second, in order to fight deficits, we need to grow the economy and hold the line on spending."

This budget will go far to strengthen America's domestic future. I am pleased with the President's commitment to grow America's economy. The President has proposed a job and growth package that will benefit all Americans, and I am delighted to see that this budget would allow over 5 million taxpayers in my home state of Florida to have lower income tax bills in 2003. The budget also includes over $7 billion for Medicaid programs in Florida. Our state is currently suffering a budgetary crisis and these funds will go far to improve access to affordable, high quality health care for many Floridians. A quality education for every child has always been a high priority for this President. I am pleased that the President's budget includes $590.8 million to raise student achievement in the high poverty school districts of Florida. This budget also includes $383 million for Florida's school lunch program and $510 million to ensure that Florida meets its responsibilities to schoolchildren with disabilities.

While the President has shown a strong commitment to enhancing our domestic security, he has also presented a budget that lays out a solid, aggressive plan to bolster our nation's strength and stability abroad. This budget makes a clear commitment to provide our Nation with the best trained, best equipped and most efficient military force in the world. The budget provides the newly created Department of Homeland Security and related agencies with the resources necessary to protect our homeland from terrorist attacks.

I look forward to Director Daniels' testimony as I am sure he will provide all of us with a clear picture of the President's budget and its focus on the most urgent needs of our country: fighting the war against terror, ensuring that our citizens are safe, strengthening and stabilizing our economy, and getting unemployed Americans back to work.

Chairman NUSSLE. We have an hour before the memorial service begins, and out of respect to that, I am going to try to ride pretty hard on the gavel here to get 5 minutes for members.

Ms. Baldwin.

Ms. BALDWIN. Thank you, Mr. Chairman.

Clearly, we come to this 2004 fiscal year budget at a very difficult time. We have talked about many of the factors—our sluggish economy, the fact that we are engaged in one war and on the brink of potentially another, a return to deficit spending, estimated to be around $199 billion in 2003. And in contrast to the opinion of the majority perhaps, I don't see the role that I believe the tax cut of 2001 plays in that deficit situation.

Both parties, though, agree that economic growth is essential to our recovery. We listen to our favorite economists talk about that at the macro level, if you will, and each of us as Members of Congress has a different sort of micro perspective on this.

I speak with my unemployed constituents. I talk with people who are struggling financially right now, those needing to change their long-range plans, perhaps return to work after retirement, of no longer being able to afford to pay for their kids to get a college education.

I think Democrats have been clear about what we think will jump-start this economy, invigorate it, stimulate that growth that we think is the cornerstone of recovery. Our economic package, in fact, focused on three critical points, that it needed to be fast acting, temporary and front-loaded, if you will; that it needed to be fair in that it reached all Americans, not just the very wealthiest of Americans; and it needed to be fiscally responsible, 136 billion to your 674 billion, if you will.

In my estimation, the blueprint, the budget the administration has sent us fails to address growth according to all three of these tenets that Democrats have regarded as rather central to growth and recovery. And in fact, this budget sort of hallmarks, or its centerpiece continues to be, tax cuts for the very wealthy, large corporations; and also contains structural or chronic deficits that I fear will place the burden and sacrifice squarely on the shoulders of hard-working and working-class Americans and the next generation.

Given what we have before us, I have a couple of questions. It seems like this budget has taken off the table some things that could be a part of this dialogue that the administration has indicated reflect their values. And, of course, budgeting is a value-based exercise. If you look at all non-defense appropriations, you are left with approximately $300 billion in spending. We have this year a $200 billion deficit.

So that brings us to the question, how much of this budget deficit do you intend to draw down or tackle through budget cuts? I would ask first in terms of this next year, and certainly ask you a follow up if we have time beyond that.

But given—in this context, I think many of the things that are being put on the table are precisely what is going to help us grow this economy, what is going to help get kids the education they need to be the great work force of the next generation. Your proposed cuts in education and retraining for displaced workers, your proposed restructure of Head Start, the threatened cuts in higher education funding, all threaten our ability to grow.

Mr. DANIELS. Well, first of all, we are talking about $400 billion and not $300 billion in non-defense—actually a little more than that. But let me say that the President generally agrees with many of the priorities you just mentioned.

You know, I don't know where the idea of cuts comes from, with one exception I will come to. Everything other than defense and homeland security grows at 3.8 percent in the proposal that the President has made. That is a lot of money on top of the biggest base in American history.

As was mentioned earlier, there has been a tremendous run-up over the last few years. So the base of spending of $750 billion means that 4-percent increase, $30-plus billion of new money. You can do a lot with that amount of money. The President—by making choices and differentiating among those things that don't work or have served their purpose. This is the reason he is able to propose $1 billion more for Title I for disadvantaged kids, $1 billion more for programs for the disabled, IDEA, something that has never been proposed by any previous President.

Yes, there are some programs in education and elsewhere which we think probably are not delivering for our kids and we ought to take the money from those and put it where it will do a better job. Let us be careful to note there is a big difference between slow growth, which is what the President proposes—growth off the biggest base we have seen in our history—and cuts; and be careful about our language.

Chairman NUSSLE. Mr. Hastings.

Mr. HASTINGS. Thank you, Mr. Chairman.

If I can get my friend from Alabama to lean back. Thank you for being here and presenting the President's budget. Thus far, we have heard a great deal about deficits. It is something that we heard when I was first elected in 1994. And as my friend from Pennsylvania mentioned, I am glad that everybody now is concerned about the deficit. Let me weigh in on that issue and mediate a different way and just ask for your response to a very quick question.

Is the President proposing this budget with a deficit simply because he wants to, or because he must do so, so that our Nation can fully recover economically and wage the war on terrorism?

Mr. DANIELS. The answer would be "B," Congressman.

As we tried to make plain and as I hoped to in my opening statement, a balanced budget is a high priority. It is an important objective. We shouldn't lose sight of it, and as the budget contemplates, we should start marching back toward it.

But it cannot be the only priority of government, at least in the President's view. Ahead of it comes a sacred responsibility for the physical safety of Americans. And that is manifested both in his call for aggressive war on terror where it lives, a strong defense, and a homeland defense to protect us against hate that might leak through.

Also, he has made the choice, but it is one we can debate honestly, to try to generate greater growth or at least to have greater likelihood of growth. Again, you could have a smaller deficit if you were prepared to trust to luck with the economy we have now. The other priorities, taken together, are not particularly expensive, but many are very important—education and veterans, an initiative about AIDS and so forth—and to a large extent they are offset in our budget by slowing down and, in some cases, even transferring funds for purposes—for programs that don't work well or purposes that may have been served already.

Mr. HASTINGS. I appreciate that. I am sure we are going to hear a great deal more about this as this debate goes on and as we proceed with the budget in this committee.

I want to focus on an area that I have enjoyed working with you on in the last year, and that is specifically the environmental management account within the Department of Energy. And just to repeat, the environmental management account takes care of the worst environmental problem we have in this country and that is cleaning up the nuclear sites—Hanford in my district, Savannah River, Oak Ridge and Idaho. And the legacy of these sites, by the way, is the Second World War, which we won, and the cold war, which we won, and this is the responsibility for the Federal Government to be involved in that cleanup.

What the administration proposed last year was to accelerate that cleanup. At Hanford alone, for example, accelerating the cleanup from 2070 to 2030 saved something like $40 billion, with a "B", just at that one site alone.

My question to you—and by the way, I appreciate the President's proposal that, in fact, increases spending this year again. Is that increase a reflection of your confidence in the accelerated cleanup thus far, even though we have just started that process? And if that is the case, as long as there is progress in the acceleration, will the administration continue to support that acceleration in funding in future years?

Mr. DANIELS. Answer is yes.

More than anything, I think the acceleration is a reflection of the President's view that it was simply unacceptable to leave environmental hazards of this magnitude lying around for decades and decades. We couldn't believe the situation we found when we got here, when people said, "Here is our plan. In just 70-odd years, we will be done." That is not thinkable.

So this was a situation where the President was prepared to spend more on an environmental imperative. And we, as you mentioned, brought forward the completion of those jobs by decades. And we are going to keep going on that. I don't believe—even if we run into trouble at a given site, I don't believe that it is acceptable to go back to the situation we found.

I might add that there is $5 billion, an unprecedented amount of resources, committed to environmental purposes in this budget, the highest operating budget the EPA has ever had, up 7 percent. It is one of the points of emphasis, much more than most other—than most departments, along with the Freedom Fuel initiative and a variety of others.

So environmental management at DOE is a big-ticket item, but only one of many in the President's pursuit of a safer and cleaner environment.

Chairman NUSSLE. Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman.

And thank you, Mr. Daniels, for being here. On January 7, there was a proposed rule change in the House, and the change allowed the House to increase our national debt limit without a separate vote. I opposed that, and I said at the time the rule change will, quote, "impose a new tax, a debt tax, a tax equal to the interest payments on our $6.2 trillion national debt, a tax that cannot be repealed."

Today, Mr. Daniels, you are here presenting the President's fiscal year 2004 budget, and the total receipts are stated as $9.2 trillion. The total spending is $2.23 trillion. So we are no longer, as you have already acknowledged, in surplus, but now we are in deficit mode.

I voted for the President's tax cut in 2001, and I am not here to criticize that. I am not here to really point fingers or try to lay blame, but I think we do need to find a way, together as Americans, to get out of this ditch we are getting into; and we are getting deeper and deeper right now.

The debt tax for 2004 is $176.4 billion. And so people understand what that really means, to put it in context, the Federal Government spends on education, according to the numbers in the Post this morning and, I think, in your budget submission, $85.3 billion on education. And yet we spend $174 billion, twice as much as on education on our debt tax.

Mr. MOORE. We spend as a nation $62 billion on veterans benefits, and yet we spend $174 billion on debt tax.

We spend, according to the Post, $31 billion on environment and natural resources, but we spend $174 billion, almost five times as much, on debt tax.

So I think this debt tax, the interest it costs to service the national debt, is very important. And while you say, well, we need to put it in context, and I agree that we do, I think we need to find a way and a plan to get back to balanced budget.

And I heard you—I was up at 1:30 in the morning flipping channels, I saw on C–SPAN Mitch Daniels was sitting there talking. I hope it wasn't real time last night, I hope it was a rebroadcast.

Mr. DANIELS. That is why they make 99 channels.

Mr. MOORE. You were talking, and I heard you saw something about we have to consider the fact that—how did you say it? You were talking about what I have heard Chairman Greenspan talk about. You say there is no real evidence, I believe, that ties the cost, the national debt that we have, to interest rates.

Yet in September of last year, Chairman Alan Greenspan said, history suggests that an abandonment of fiscal discipline will eventually push up interest rates, crowd out capital spending, lower productivity growth, and force harder choices upon us in the future. And I really, in the 4 years I have been in Congress, have somewhat become a disciple of Chairman Greenspan, because I think it makes sense. I tell people back home, most Americans live by three simple rules most Kansans do. No. 1, don't spend more money than you make; No. 2, pay off your debts; and No. 3, invest in basics in the future.

And people say, well, we do that as a family, why can't the Federal Government do that? I think we need to get back to that. I want to move on to one more thing and ask you a question about this. You asked for proposals here, where—and I tell people back home, when I agree with the President, I am going say that. When I disagree with the President I am going to say that. And I agree with parts of the President's proposal.

For example, I think a lot of Democrats and Republicans would say we need relief from the alternative minimum tax, No. 1. No. 2, we need accelerated marriage penalty tax relief. And No. 3, I think a lot of Democrats would certainly agree with an increase in the child tax credit. But one big problem that I have with the President's $674 billion economic stimulus package is this elimination of dividends by corporations, tax on that.

I don't have a problem in concept—in fact I think the Republican leadership proposed something like that at the end of the last session, but they never brought it up to the floor. I would have supported a partial on that. But the President comes along, the President proposes a total elimination.

My concern is this, one of my concern is this: No. 1, the cost is way over half, $354 billion of the total package I believe.

But last week, 10 days ago, I called the Department of Revenue—the Kansas Department of Revenue—and I said: If the President's proposal on this dividend tax elimination passes, what impact will that have on the Kansas budget? They said it will cost $51 million in lost revenues. Now, Kansas is a relatively small State. And I will tell you right now, we are in the same fiscal position as about 45, 46 other States. We are looking at a revenue shortfall somewhere between $750 million, with an M, not a B like we are talking about here, and $1 billion. And we don't have that money.

I talked to the new Governor. She says, we don't have $51 million to lose. I guess I would like your comment on that. The President is a former Governor. I hope he is going to empathize with the position that a lot of States are in right now.

Mr. DANIELS. Yes. First, let me thank you for your comments. Yours has been a consistently constructive voice, and I know the sincerity of your views about keeping as close to balance as we can and getting back there, and we will welcome your thoughts about doing that.

I will say one fundamental thing. The best thing for the budget of Kansas would be a return to stronger economic growth, and also more confidence, more investor confidence. Most States are in the fix they are in because, first of all, growth and employment, taxes paid began to fall off. And in many cases the biggest fall-off, just as for the Federal Government, came from stock market related revenues, capital gains and payments for options and bonuses and things indirectly related to the stock market.

So getting the economy going faster again and, in particular, strengthening investor confidence would be a good thing for Kansas. And I don't doubt that there would be a substantial, I hope more than compensating offset for the 51 million single point estimate they have for the effect of that change.

Chairman NUSSLE. Mr. Schrock.

Mr. SCHROCK. Thank you, Mr. Chairman. Thank you, Mr. Daniels, for being here. There seems to be a common thread going through all of this, and that is deficits. Of course I can identify myself completely with what Mr. Gutknecht said, and Mr. Moore just stole the rest of my thunder.

But I am concerned about the deficits as well. And clearly any thinking person knows that the tax cuts did not drive us into this situation. We simply must have homeland defense. We simply must have defense spending.

During most of the 1990s the Defense Department was pretty much decimated, and now we are trying to play catch-up ball. So that is something we simply have to address.

But I want to keep a cap on spending as well. I don't know if it was you or someone else who said the course of prediction is a hazardous one. There is no way that we know what is going to happen at noon, well, 1 o'clock today, let alone next year. So that is a very valid point.

The tax cuts, nobody has mentioned that specifically. But I think Mr. Moore did very well. I think that the AMT and the child tax credit and the marriage tax penalty are three of those that I think are absolutely vital. I think the others are going to be subject to a great deal of debate, and that is something that I look forward to.

But we need to hold the line on spending. And I think a lot of what the President addressed in the State of the Union address is going to get a lot of scrutiny over the next several weeks. But those three that Mr. Moore mentioned, that I was going to mention had he not, I think are the most important tax cuts that we can possibly do for the American people right now.

Chairman NUSSLE. Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman. Welcome, Mr. Daniels. Welcome. It is good to see you.

Mr. DANIELS. Likewise.

Mr. LEWIS. Mr. Daniels, in this budget we see and witness a dramatic increase in defense spending. At the same time we see an overall freeze on resources for domestic programs across the government. Just a close review of the proposed budget, there is very little compassion in this budget.

This budget calls for reduction in vocation training and afterschool services, and would eliminate 45 programs in the Department of Education alone.

It also would reduce aid for rural development, would phase out a Clinton administration effort to put 100,000 new police officers on our Nation's streets, and eliminate a 10-year old program that has demolished and replaced dilapidated public housing, and this program is better known as HOPE VI. In my district in the heart of the City of Atlanta, this program has been very successful, very effective.

Mr. Daniels, not so much of a question, but I would like for you to respond. With this proposed budget, what is your vision? What is the vision of the President for America and the world community for the next year, the next 5 years, the next 10 years? Where are we going as a Nation and as a people with this proposed budget?

Mr. DANIELS. Very fair and well put question, Congressman. Thank you. First, let me say that, and I recognize that you have only had 24 hours to read it. But I do hope that you will be able to spend more time with the budget. I think that you will find that the comments you just made were selective and not at all representative of the proposal in its entirety.

Let me go back to the fact that defense spending rises 4.2 percent in this proposal. The rest of government, including all of the programs you mentioned, grows at almost the same level, 3.8 percent. I have pulled homeland security out for this purpose. So each is growing just a little to one side or the other of the 4 percent family income level that the President told us to aim at.

Secondly, I think, if this is not a budget that expresses the compassion of the American people and of this President, than he is going to fire me, because he was very clear about the importance of it doing that.

Let me just give you a few examples. I think it is important you mentioned the world community because America's compassion, this President's compassion extends beyond our borders. And the new initiative for AIDS of course has gotten a lot of attention, very large. No attention at all has been paid so far to the new increase in famine funding, $200 million of emergency additional money on top of the outpouring that the United States provides, as you know, well over half of all of the food aid in the world already, and the President wants to go further there.

You single out a couple of programs. And it is true that across $2 trillion, we do find some programs that have either run their course, like COPS, which was supposed to provide 100,000 policemen, and did, provided 100,000 plus. The HOPE VI program you mentioned in housing has served an important purpose. But is there a better way to serve it? HOPE VI, like COPS, was supposed to end. It was supposed to sunset last September 30, and did. It was supposed to demolish 100,000 units, it demolished 115,000.

When we look back, we find that it cost $120,000 a unit to do it, whereas the Home block grant available to the same communities, including yours, does it for $80,000. And it took, on average, 5 years instead of 2 years to get the job done.

So the idea of bringing down old public housing and replacing it with new and better housing is a very important one, and the course of compassion is to do it in the best way we can, the fastest and most effective way.

So I would be glad to visit with you further about this. But the President was very clear. I haven't mentioned the new initiatives for mentoring of children of prisoners, many of which he mentioned at the State of the Union, new ways to express the compassion of the American people, but we would like to work with you on it. And certainly I would defend this budget passionately as meeting that test.

Mr. LEWIS. Well, thank you very much, Mr. Daniels. I look forward to working with you.

Chairman NUSSLE. Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman. If I can get the chart No. 3 up, Mr. Chairman. Mr. Daniels, take a look at this chart, as we debate the outlines for the past many years and as we try to project the future. We have had deficits for a goodly number of years. I notice we hit a spike where we had a surplus for a short period of time, but with the surplus we were taking, almost 21 percent from the public.

And we have talked and listened to the debate today over the economy and whether you could borrow money to have tax cuts. It is not true that if your mother was in the hospital or needed to go to the hospital and you didn't have the money, wouldn't you borrow the money to get her in the hospital? And isn't it the same if you have a sick economy? Shouldn't we do whatever is necessary in order to try to stimulate the economy, and get people back to work? We can't continue to have a 5 percent unemployment for a sustained period of time. We have got to find a way to generate jobs. And if we didn't have the tax cut, what would this chart look like, if you tried to project it out for the next 10 years? Are we sufficient to run the government say if we wanted to take 22 percent from the economy to run government, or is 18 percent a fair number?

Mr. DANIELS. I don't know what a fair number is, Congressman. But I certainly think that we want to be very careful not to strain—to increase taxes so that we damage the economy. I don't know any economist who wouldn't worry that beyond some point you would do that and in the end perhaps have less revenue than a growing economy, a strong one would have produced.

So I am well aware of the averages you are talking about. It is true that we had reached levels of taxation never been seen in this country, before the 2001 tax cut happened. We were taxing at a total level that was unprecedented, individual income taxes were at the highest level ever. So I think there was a bipartisan consensus that some relief was necessary, and as I have mentioned before, much of that relief has not arrived yet. And if there are those who either have changed their mind or never believed it was a good idea in the first place, would like to go back to higher levels of taxation, then they will have multiple chances to make that argument.

Mr. BROWN. Mr. Chairman, if I can follow through for just a minute. We talked about cutting the death tax and the impact that is making back in the States. But is that a reason not to cut it, if we are having a double tax, which we are? Those people worked and paid taxes all of their lives to generate the wealth to leave to their children. And should we, in effect, assess another 55 percent on top of that? The same way with the dividends. You know, the corporations pay that tax and should we in effect have to pay a double tax? Is double taxing the American people the right way to generate revenue?

Mr. DANIELS. Obviously the President thinks not. Your question does raise an important point that the original whole tax relief of 2001 was in large part aimed at strengthening the economy over time, but also in part correcting certain injustices at least that the President saw in the Tax Code, the marriage penalty, for instance, and the death tax.

And likewise, his proposal on the double taxation of dividends is as much a fairness and equity proposal as it is a long-term economic growth initiative. But, both of those considerations I know entered his thinking in making those suggestions.

Mr. BROWN. Thank you.

Chairman NUSSLE. Ms. DeLauro.

Ms. DELAURO. Thank you very much, Mr. Chairman, and thank you, Mr. Daniels.

Let me just get right to the point. My view of this budget doesn't meet the standard of responsibility or honesty that taxpayers, that businesspeople and consumers have a right to expect.

We have seen our surpluses evaporate in the last 2 years. We now face record deficits. The budget includes nearly $1.5 trillion in tax cuts, while it leaves families with no help for health care, child care or housing. The budget promises States additional Medicaid funding only if they agree to program changes that would severely restrict access. The budget doesn't factor in the costs of the war in Iraq, fixing the alternative minimum tax, or Afghanistan.

The deficits that are caused will lead to increased interest rates, and a larger portion of taxpayers' dollars will go to paying for the interest on the debt.

In essence, if you believe what Alan Greenspan says, and if history suggests that an abandonment of fiscal discipline will eventually push up interest rates, then I think what we are abandoning here is fiscal discipline.

That means homeowners in this country will see a tax, because there will be an increase in their interest on their mortgages, there will be a tax on small businesses trying to gain access to capital, a tax on kids trying to pay back student loans, and people ought to know that. They ought to know that from today forward they are going to be taxed because of these deficits.

Let me move to another point, and I will get to my question, which is, if you take a look at what has happened here—and my colleague before talked about double taxation—if you take a look at what dividend tax relief has done here, what we are saying is that we are converting income tax into essentially a tax on wages only, that the proposals eliminate most of the individual tax on income from capital, interest, dividends, capital gains, and the only kind of income that is going to be double taxed is going to be wages because we are going to subject wages to the full force of the income tax and to the payroll tax.

And I will quote the Washington Post this morning. It says, “In other words, if you have the money, you can simply invest it and watch the tax-free earnings pile up. As a practical matter the taxes that would remain would be on those chumps whose sole income is from their jobs.” Those “chumps” are the hard working men and women of this country who are getting nothing from this budget.

I would like you to address the point on removing from any kind of tax obligation, if you will, income from capital and the double taxation on workers. Again, that is wages at 10 percent to 15 percent, and they will bear 15.3 payroll tax burden as well.

Mr. DANIELS. Well, thank you. I welcome your concern for income tax payers. Correct me if I am wrong, but I think you voted to keep their taxes at the highest levels in history just 2 years ago when the President was making exactly this point, and I would welcome your joining him to bring the relief forward to this year when it could do them and the economy the most good if this has become a big concern for you. I think that there are a variety of other issues involved here, and I won’t take time to untangle them all. But the President’s Medicaid reform, for example, is strictly optional for the States. States who have been asking for more flexibility would have it, but no State would be obliged to take him up on the offer of more flexibility and more money.

Ms. DELAURO. I understand, and if you will pardon me, that Indiana Governor Frank O’Bannon said that the Medicaid proposals are alluring in the short run, largely because of the promised upfront money and flexibility, but the potential problems are down the road, he said, where the question is, quote, will people come off the programs who really need the service?

I understand this is a State that you are particularly interested in, in terms of potential future electoral office.

Mr. DANIELS. Well, I am interested in that because it is my once and future home. But those Governors who don’t believe it would work out well in their State are under no obligation whatsoever. It is simply a new option, a new choice that they would be free to make, and many Governors have been clamoring for that kind of choice.

You know, on the question of interest rates and their possible increase certainly it is something to watch. As I indicated earlier, it could well be that at some level a connection between deficits and interest rates might show up. It hasn’t in the past. But we ought to be watchful. I would just say that at the present time your constituents and everyone else’s are—although the economy has its problems interest rates is not one. We have the lowest interest rates in 40 years.

Mortgage payments being refinanced has been one of the great blessings, putting much more money in people’s pockets, in fact more money than most changes Washington can conceive of. So we ought to keep our eye on it, and certainly we ought to try to join hands on policies that say that we never do see an increase other than the one that a growing economy would——

Ms. DELAURO. But if there is more demand on credit, don't we then dry up the pool and the cost of credit goes up? I think that is what Mr. Greenspan was talking about.

Thank you, Mr. Chairman.

Chairman NUSSLE. I apologize for interrupting, but we want to keep things moving.

Ms. DELAURO. I understand.

Mr. WICKER. Thank you very much. Mr. Daniels, I want to congratulate you on some excellent testimony this morning, and, Mr. Chairman, on a very fine hearing.

As a brand new member of this committee, I want to observe that we are much more technologically advanced on the Budget Committee here than the Appropriations Committee where I came from. I love the fact that we put the charts up for everyone to see.

I am going to ask staff, and I have alerted them ahead of time, to put up No. 3 of Mr. Daniel's charts dealing with the effect on the deficit of the tax cuts and also the effect on the deficit if the tax cuts had not been enacted. I think that is chart No. 3.

I thought I had given advance notice about this. At any rate, while we are searching for that chart, let me just ask you, Mr. Director, when you estimated that there would have certainly been deficits had the tax cuts not been enacted, did you use dynamic scoring?

And, you know, the public is listening here. I think sometimes we use Washington, D.C. terms. But you have pointed out, and I think most members of this committee believe—and the President believes—that tax cuts do stimulate jobs, they do improve the economy, and when that happens people pay more taxes and revenues are enhanced.

So my question is about this chart that I am not able to point to, did you use dynamic scoring? Did you account for the economic impact of tax cuts or no tax cuts?

Mr. DANIELS. No, sir. We simply stripped it out. No, sir, this very simply pretends that the tax cut had been defeated. And, in fact, let me point out that there weren't too many people, as I recall, 2 years ago who advocated no change at all. There were alternative plans for less tax relief. But this imagines a complete defeat for the President, no tax relief at all, and we would have had triple digit deficits last year and this year and probably next year. It is only a way of saying let's quit looking for blame where there is none. The deficit came back directly as a result of the popping of the stock market bubble, the recession that we did not know was on as we sat here 2 years ago. Some suspected it. I remember very clearly in December of 2000, Vice President-Elect Cheney said he believed we might be at the edge of recession. He was chastised for talking down the economy and so forth. He was dead right. But nobody knew that. And nobody's model had that. Those two factors, plus the cost—the cost directly of 9/11 already exceeds $100 billion.

You know, Congressman Spratt asked a fair question, do I feel chastened? Of course. Who doesn't? Despite our avowed skepticism and our attempts to be cautious and our attempts to leave some buffer and all of the rest, we didn't leave nearly enough for the events that history threw at us.

Mr. WICKER. I think that point is well made. We are under terrible time constraints here. But here is the frustration that I have of chart like that, which is of course very accurate.

The President obviously believes—he is convinced—that his tax cuts will be beneficial to the economy, and yet you stated to us in your testimony today that your office uses the conventional assumption and avoids dynamic scoring.

Is there a way for your office at least to provide us an alternative set of budget assumptions and enable us to see which is more accurate? I mean, I am an advocate of changing the rules around here. We have had a discussion about dynamic scoring earlier today, and certainly it is hard to be accurate. But it does seem to me that it hurts the President's case when he is firmly convinced, as am I, that the tax cuts will be good and will enhance revenues and we can't show it on our budget document.

Mr. DANIELS. You are right, of course. Let me just say a couple of things. One is, we had the shortest and shallowest recession in a long, long time, and I could parade a group of eminent economists across this platform, all of whom have said that were it not for the tax relief of 2001 it would been much worse, and I think that is undoubtedly so.

Secondly, with regard to scoring, yes, I do believe what we do now is unnaturally conservative, disregards any effect from these changes, and is therefore for sure inaccurate.

However, if we were to leap into a new scoring system we would be suspected and accused, I am sure, of doctoring the numbers to make the President's proposals look better. So we have not done that. We have played by the rules we found.

I do think that the lead, in terms of some change here, probably should rest with a bipartisan or nonpartisan entity. It could be the Congressional Budget Office. And the way forward probably is the one you suggest, not discarding the old-fashioned static model, but presenting an impact statement or an alternative set of projections that makes some reasonable estimate of what the real world effects would be.

Chairman NUSSLE. Mr. Edwards.

Mr. EDWARDS. Mr. Daniels, I respect you as a capable public servant who genuinely cares about balancing budgets and fiscal responsibility. I believe you probably would be willing to make deeper budget cuts than Members of Congress. But eventually in Federal budgeting, as well as in football coaching, we have to judge an administration by its results and not just its personal expressed values.

Two years ago, when my two sons were just 3 and 5 years old, your budget projection said that they would face no national debt when they graduated from high school. Now that my two young sons are 5 and 7 they will face, according to your numbers, at least a $7 trillion national debt on which they will pay interest for the rest of their life. They will face that debt before they even finish elementary school.

Now, in the history of the United States there has never been, to my knowledge, that type of enormous economic collapse in such a short period of time in regard to the Federal budget outlook. And I don't blame you or the administration for all of that; that would not be fair. But I don't think reasonable people can deny that the proposed $4 trillion in tax cuts don't exacerbate a very serious deficit situation.

You know, what we do know from history is that guns and butter policies did not work in the Johnson administration in the 1960s, that guns and butter policies did not work in the Reagan administration of the 1980s in regard to Federal deficits, and it did not work in the last 2 years with this administration when it proposed in effect a guns and butter and tax cut policy and still promised we could pay down the national debt to zero.

I guess my conclusion today is that what I am hearing is that you are, in effect, genuinely, but in effect asking us to ignore the repeated lessons of history and to trust, by faith, the budget analysis of those same analysts that told us just 2 years ago we could have our cake and eat it too. We could have a $1 trillion national debt, and my two young sons would face a totally debt free country in just a few years.

In all due respect, and it is with great respect, I am not sure I am willing to take that kind of risk when the consequence might be paid by my sons, the children of these Members of Congress and future generations of our children and grandchildren.

I want to make a few other observations, having listened to the testimony and the very able questions on both sides of the aisle. In case I don't leave you time to answer this question verbally, I hope you can do so in writing later.

What should I tell the 12,500 Army soldiers in my district at Fort Hood who will soon be deployed to the Iraqi theater? What is fair about cutting, by 14 percent, the Impact education funds designed to help their children get a better education here at home while mom and dad are in harm's way fighting against Saddam Hussein? What is responsible or compassionate or conservative or fair about that policy, especially when one considers, in my same district a friend of mine who said he made a million dollars in dividend income last year will not have to pay a dime in taxes on that same dividend income in the year that these military school children will receive a reduced education, even while mom and dad perhaps are giving their lives for our country?

In his State of the Union address, President Bush said, and I quote, "This country has many challenges. We will not deny, we will not ignore, we will not pass along our problems to other congresses, other presidents, and other generations."

You know, I think President Bush was right in that principle, and that is frankly why I find this budget to be stunning in its level of fiscal irresponsibility. It ignores and denies the real day-to-day consequences of long-term deficit spending. It even goes beyond passing along the deficit problem, the national debt problem to our children; it exacerbates that problem by 2, to 4, to $5 trillion.

If passing a $300 billion deficit this year on to our children is good stewardship, I seriously think we need to reconsider the meaning of stewardship. And if passing a $300 billion deficit this year and adding several, 2 to $4 trillion to our already enormous $6 trillion national debt is conservative, then perhaps we need to reconsider the definition or meaning of conservative.

In my opinion, this budget breaks faith with our children, who will have to pay taxes on this deficit for the rest of their lives, and on our seniors by undermining the integrity of the Social Security system.

Mr. DANIELS. I will be glad to write you a letter about Impact Aid. But the first thing you can tell—you wouldn't have to tell the folks at Fort Hood—is that this President has raised their pay, brought it from a dreadful level when they had been mistreated and underpaid for years, and as well as their benefits, their housing, has treated them with the respect that they are due given the job that they do and the risks they will take. And the impact of that I think dwarfs enormously any impact they will ever feel from a program which I will be glad to debate the merits of with you on that.

Mr. EDWARDS. I would appreciate that response on what I think is a very important program. They care about their children's education.

Chairman NUSSLE. Mr. Bonner.

Mr. BONNER. Mr. Chairman, Mr. Daniels, this is the first time I have had an opportunity to ever ask an OMB Director a question.

Mr. DANIELS. You have been waiting for years to get at one of these people.

Mr. BONNER. I am a new Member of Congress. I have served for less than a month. But I have been on the Hill for almost 18 years. I will have to admit that my ears are playing tricks on me to hear so many of my friends on the other side express grave concern about deficit spending. I wish we had had that during the first years of the Reagan administration, the first Bush administration, and so on and so forth. I welcome it, quite frankly.

I would like to ask you two questions very briefly. No. 1, are you aware of any bill that has been introduced by any of my colleagues on either side that would repeal the tax cut of 2001?

Mr. DANIELS. No, sir. Not so far.

Mr. BONNER. Because there has been a great deal of criticism about that, how that has exacerbated and made the deficit more difficult. I haven't heard one, and I have, to the contrary, proposed and introduced my first piece of legislation. That would make——

Mr. BAIRD. Will the gentleman yield? I believe Mr. Rangel has introduced a bill, arguing that until the war has been resolved the tax cuts will not move forward.

Mr. BONNER. Well, I have not had a chance to talk with the gentleman from New York, but I would welcome that opportunity. I have introduced a bill that would actually make permanent the tax cuts of 2001. How can the people of this country truly plan long-term financing for their own families when we actually have a sunset provision in 2010?

One comment that I might make, however, and it is not necessarily disappointment in your office, Mr. Daniels, but I would welcome an opportunity for your office to help me and my constituents back in south Alabama. You said in your statement that a strong economy produced unprecedented surpluses and only a strong economy can bring those surpluses back. Our economy in the First District of Alabama is tied largely to some of the projects that the Civil Works Division of the Corps of Engineers has worked on.

We have a number of areas where we don't have interstate systems, but we have a river system that if it is not managed, if it is not maintained appropriately, then we are putting a nail in the coffin of hope to those economies there. And I would welcome an opportunity, while I am not being critical of the budget, somewhat disappointed that I think for the third year in a row this area has been cut, to find an avenue of opportunity to work with the administration, to rather than turn those into cuts, into opportunities, because I think that they would truly help pave the way for a lot of rural economies, not only in Alabama, but in Mr. Wicker's State of Mississippi and other communities throughout the country.

Thank you again for this opportunity.

Mr. DANIELS. Thank you, sir.

Chairman NUSSLE. Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman. Mr. Daniels, it is good to see you. You have asked about our plan, and chart No. 5, the one that—yeah, that one—that is our plan, the little green there where we took a massive deficit and turned it into a surplus. That is a result of Democratic leadership that was put in motion without a Republican vote. We made the tough choices. It was kept in motion with enough of a minority in the House and the Senate to sustain the President's vetoes of Republican plans that would have gotten us off track. It was unpopular, but responsible. As a result of making the tough choices we lost 50 seats in the House of Representatives but it was good for the budget, it was good for the economy.

There are tough choices. This budget doesn't have any tough choices, just excuses. The massive deterioration in the budget, not anybody's fault. There is every indication that nobody thinks that there is a problem, and we can still afford massive tax cuts, eliminate the tax on dividends, repeal the estate tax on dead multimillionaires, so that, as was suggested, the Leona Helmsley theory of taxation, only little people pay taxes, will be instituted.

We have a 5-year budget. And the next chart, No. 3—the 5-year budget spends Social Security and Medicare and then some. As far as the eye can see the whole budget gets worse and worse. We go more and more into debt. This stops at 2008, which is interesting, because that is the year when those born in 1945 begin retiring. And there will be significant strain on Social Security and Medicare, and we will be in the worst possible shape at that time. There is no apparent plan to deal with that. So what will be the future of Social Security and Medicare?

You have indicated that there is apparently no contingent plan about a war in Iraq. I guess if we go to war we will just add that up to more debt, let the next generation pay for it while they deal with Social Security and Medicare.

And even if there is more debt—I guess No. 9—if you can explain what effect it is going to have on the debt tax, what more we will have to pay on taxes as a result of the national debt.

Is that 5 minutes?

Chairman NUSSLE. I believe it was. Do you have any response, Mr. Daniels?

Mr. DANIELS. Only to say, you are sitting in the right place, Congressman. This is the right forum for those very debates to happen. There are only two ways to move more quickly back to balance than we now project. You can raise taxes or you can cut spending, and this is the forum for making those proposals. Ultimately, it has to produce a budget resolution.

If you don't like the one that the President is recommending, or the one that your colleagues may carry forward, then that is the place to present the tax increases that you believe would lead to a positive difference. The President, I would guess, would find that a very risky course. Trying to tax our way back to prosperity is a pretty dubious enterprise, but honest people can differ.

Chairman NUSSLE. Mr. Franks.

Mr. FRANKS. Mr. Daniels, I guess my first comments to you, sir, are one of sincere commendation for just your sincerity and your clarity of mind before this committee, and it seems clear to me that the President has laid out in this budget clear emphasis on the need to build the economy and to protect this Nation against the specter of terrorism. And now this committee has the grave responsibility to try to meet those priorities in the context of making sure that we do not do damage to the future and to the economy through deficit spending.

So with that, I would like to ask you just one incredibly unfair and theoretical question, but one that I think is an important one for us to consider.

If the fate of the world depended upon us balancing this budget and our focus was on trying to do that through the reduction in spending, again an unfair question, what areas would you consider to be the most responsible for this committee and this Congress to consider in terms of reducing spending to meet a balanced budget?

Mr. DANIELS. I don't think there are any unfair questions, Congressman, and I don't view that one as unfair. I will take you back first to the facts I displayed a little earlier on. We can get back to balance in pretty short order without cutting anything, without cutting anything, simply by maintaining the government where it is, doing nothing new for a couple of years. In fact we could let it grow with inflation. Anything you found to cut would hasten the day of a balanced budget, if that was all that our duty required.

If times were normal, if the economy were stronger, if there were not the threat to lives of Americans, if we weren't in a war now and potentially facing another, that might be something we could all agree to do, to make our No. 1 priority, not just one of several. It would not be beyond our reach to do that. Under the circumstances the President thinks that would not be a wise choice, and I hope most folks will agree.

Mr. FRANKS. Thank you, sir.

Chairman NUSSLE. Let me just report to my colleagues that we have 5 minutes left, and time for one more inquiry before the memorial service begins. Could I just see—of the members who have not yet had an opportunity to speak—what interest there would be in recessing the hearing in respect for the memorial service and then coming back. Would that work for members? I see a few members that are interested in that.

My understanding is that while it is inconvenient for all of us, including Mr. Daniels, you know there is a lot of inconvenience that a lot of people have had to go through as a result of the tragedy that happened this weekend. And out of respect to that, I think I would really like to recess the hearing out of respect to that memorial service and then come back afterwards if we can do that.

So, Mr. Ford, you will end our first inquiry, and then we will come back after the memorial service.

Mr. FORD. Thank you, chairman. Mr. Daniels, good to see you. There has been a lot of talk here today about what Republicans have done over the years and what Democrats have done over the years in terms of spending and tax cuts, and one thing we cannot deny is that what has traditionally been thought to be a Democratic approach, which is to run deficits up, now seems to be something that Republicans want to do. I know my friend, Mr. Bonner, made an excellent point that he finds it ironic that Democrats would be urging for us to restrain spending somewhat. I would remind him, as well as all of my colleagues on the other side, that some 60 percent of Democrats in this Congress have never been in the majority. So to label that or to try to affix that label to most of us not only is unfair, it is untrue.

But let me get to the point which I think is most relevant. Most of what we are talking about here, as important as it is and as much as it makes to budget experts like you and Mr. Spratt and Mr. Nussle and the others on the committee, it is pretty irrelevant to most people.

I think most people sitting at home are wondering, "what are they doing to create more jobs here in my community? What are they doing to help make my schools better? What are they doing to make sure if I get sick or someone I know gets sick, if he or she has to go to the hospital, that they will get treated, and won't have to sign a bunch of papers or go through a bunch of bureaucracy in order to have things done?"

I imagine most Governors are wondering how come the President didn't provide much relief for us in his budget. I know you have come back to try to offer some changing of Medicaid formulas and so forth. But we all know the best way, as you have told us many times in the past, Mr. Daniels, as well as this President, that to help consumers the best is to put money right in their pockets. To help States the most would be to provide some direct aid.

You mentioned a few minutes ago that us Democrats, if we are so opposed to the President's budget, then we should have the courage to offer our own. You accused Mr. Scott of either wanting to raise taxes or cut spending.

I might remind you, you work for the President of the United States. That is your responsibility, and if you choose to shift it to us then you should just admit that you all have failed in 2001 and that this budget that you are proposing today won't accomplish much more than what you accomplished 2 years ago, and we would be happy to try to assist.

But the reality is you are borrowing more money to gamble again. You borrowed money in 2001 against an estimated or projected surplus. Now you are borrowing money again, as Mr. Spratt indicated, against the bottom line which you can't offset against

Medicare, Social Security. We use all of those big words to say we are not really running a debt.

The reality is we have got this credit card, and we now owe a lot more on it than we did 2 years ago. It is estimated we will owe even more on it if and when—I hope to have kids, my momma can't wait for me to have kids, so when I have kids, what those kids will have to pay on down the line.

In light of that, you propose a dividends tax reduction. You have not proposed much to help, I think, regular folks. As much as I think there is some merit to that, I don't understand how that will stimulate much right away. Most economists and people who know far more than me, and you being one of them, have all suggested that it may be good in the long run, get people investing in companies that actually are producing profits, get people investing in the market again.But the reality is what do you do for people who earn 50 to $60,000 a year?

I might add, you all use these great numbers. But over half of American tax filers will get back less than a $100 this year under the plan. I am just curious, what is going to help create more jobs in Memphis, where I represent, and better schools and make hospitals work better, and frankly make this conversation more relevant for people, because all of this stuff is about outer years and debt tax.

I mean, I get a sense of what we are talking about, but at the basic level my Governor, who, like Mr. Moore's Governor, is faced with a $400 million debt, not as big as California, New York, Florida, but that is a lot of money where I come from, and we are expected to have a $500 million shortfall next year—what does this budget do to help us provide more health care or keep these hospitals open in my State and to keep schools functioning, not at the levels they are functioning now but to increase it?

I might add, you still haven't funded the No Child Left Behind Act, and you all can say it is us but the reality is you all haven't done much to help it either.

But I would love to hear just a few seconds of response or even get a letter from you, Mr. Daniels.

Mr. DANIELS. It says I have got a minute-four. I think you asked the question in the right way, Congressman, the way the President does. What must be done for this country? And I have given his list of the things he thinks must be done. Many of the things you just mentioned are on it. Certainly more jobs is on it, better education is on it, better health care is on it.

You know, borrowing or a deficit is not a policy of this President. It is a consequence of the choices that he believes that we have to make in order to make that kind of difference in the lives of average citizens. With regards to the States, some haven't noticed but Federal transfers to States have been going up very fast, 9 percent a year for the past 4 years, going up faster than State spending. So on a net basis it is helping States with the problems that they have encountered.

Mr. FORD. Mr. Daniels, as you close out, one last thing, maybe you can respond in writing. The dividend tax cut, my Governor and my mayors in my area say that it could hurt their ability to raise money through some of these municipal and other tax-free bonds.

I would love to get your thoughts on what impact you would think long term that will have as we try to build new schools and even try to do some of these things that the Federal Government doesn't help us much on.

Mr. DANIELS. Yes, sir. We will write you on that. I would agree with you that that particular part of the President's plan is more for the intermediate and long term, not just for the short term. His is a more balanced approach. Some say only do things that will affect the next few months, and his proposal was a little broader.

Chairman NUSSLE. With that, I thank members for their participation in the first part of this.

We will recess until 2 o'clock, and as I said before to members, please keep an eye on the memorial service and we will try and also inform members of when the hearing will come back to order, but approximately 2 o'clock.

We stand in recess.

[Whereupon, at 1 p.m., the committee was recessed, to reconvene at 2 p.m., this same day.]

Chairman NUSSLE. This resumes the hearing on the President's fiscal year 2004 budget, the House Budget Committee. When we left off, we were in the process of questioning the witness before us today, the very distinguished director of the Office of Management and Budget, Mr. Daniels. I will call on members as they have arrived. Mr. Diaz-Balart.

Mr. MARIO DIAZ-BALART. Thank you very much, Mr. Chairman, and I will be brief because as a freshman, I know that one has to be careful, one says, the first time someone speaks in committee. I want to first thank you, Mr. Chairman, Mr. Daniels, also for your presentation. Mr. Chairman, I have to admit that I have learned a lot as a freshman in this committee. I have learned not only from Mr. Daniels, but I have also learned a lot from the honorable members of the minority party today. I heard today a couple of things I thought very interesting.

As a freshman, I learned today that a 4-percent increase in spending, 4-percent growth in the size of government excluding, I believe, defense, I learned today that that is a cut. I also learned today, Mr. Chairman, that—and this one I have to admit was a real eye opening experience. And I hope the other freshmen have gotten as much out of this meeting as I have, and particularly learning some of the ways of Washington, D.C. For someone like me who is new to Washington, D.C.

I also learned from some of the honorable members of the minority party that when the President proposes that government take less money away from the taxpayer, that that is actually an increase in government spending. Mr. Chairman, I also learned that today when the President—I want to talk a little bit about Florida—talks about how in Florida residents—about 5 million taxpayers in Florida would have lower income taxes in 2003, how 1.2 million small business taxpayers could also use their savings to invest in new equipment, expand facilities, hire additional workers; how in the case of 1.9 million married couples in Florida would benefit from the accelerated reduction of the marriage penalty; how 1.4 million married couples and single parents in Florida would benefit from the acceleration of the increase in the child tax credit; that those millions of Floridians are rich Floridians.

Mr. Chairman, I thought I would mention the fact that I learned a lot about an incredible amount of millionaires that I was not aware that existed in Florida. I learned how—again, I repeat—how not taking peoples' money is increasing government spending. And Mr. Chairman, I want to note for the record, note that in the district that I am fortunate and blessed to represent, the people there believe that if government increases spending by 4 percent, that is not a cut, that is a 4-percent increase.

For the record, Mr. Chairman, I want to make it very clear that the people in the district that I am blessed to represent believe that if you let them keep more of their money, Mr. Chairman, that is not increased government spending. And for the record, Mr. Chairman, I also want to note that many, most, those millions of Floridians that would benefit from this program are not rich people. They are hard-working men and women who work awfully hard to put the food on their table to pay the mortgage and pay their rent. Mr. Chairman, I just want to make sure that at least for this district that I am blessed to represent, I set the record straight.

Chairman NUSSLE. I thank the gentleman.

Mr. Cooper.

Mr. COOPER. Thank you, Mr. Chairman. As you know, I have had the privilege of following budget debates at the Federal level for almost 20 years now. I think most folks back home are confused by these hearings. The numbers are too big to even imagine, but they want to know whether their government is working for them or against them. I am worried, and I realize, Mr. Daniels, you have probably the toughest job in the administration, maybe the toughest job in America.

The criteria used to be for the job that you had to pay for the administration's promises. Then pretty soon, people started pretending they were paying for the promises. And now people don't even pretend to pay for the promises. I had the pleasure of seeing two of your predecessors, very distinguished and smooth people before this committee, essentially ruining their reputations by later contradicting what they told this committee. Makes me wonder whether we should put OMB directors under oath when they come. We have heard a lot of happy talk.

Let me read to you a quotation from one of your predecessors that he was only willing to reveal after he retired from public service. And this is a quote. "I knew we were on the precipice of triple digit deficits, a national debt in the trillions and destructive and profound dislocations throughout the entire warp and woof of the American economy. By then, all the major errors which would eventually shatter the Nation's fiscal stability were apparent. I had most of the diagnosis down already. It was only the full and final magnitude of the numbers that would materialize later, but I kept quiet and tried to work inside. It proved to be of no avail."

The administration locked the door on its own disastrous fiscal policy jail cell and threw away the key. David Stockman wrote that in his book, The Triumph of Politics—it is on page 13—as he reflected on his own prior testimony before this committee. If we could have slide No. 5 presented, please, entitled "The Fiscal Opportunity Loss," the President, in his State of the Union—excellent State of the Union address, as Chet Edwards already said—we will not pass along problems to other Congresses, other Presidents or other generations.

And yet, with the long-term structural budget deficit that we are being presented with, it seems to me that is precisely what we were doing, and that is what is the greatest risk to your own personal reputation. By putting this debt tax, this debt burden on later generations, we are passing the buck to future generations. I have been a deficit hawk most of my career. It is very tough to achieve what the Clinton administration achieved with that graying patch there. The only three consecutive years of budget surpluses that we have had since the days of Calvin Coolidge and Herbert Hoover.

While we shouldn't hyperventilate about the deficits, it is going to be remarkably difficult for this Congress—under either party—to dig our way out of this hole. That is the macro problem. The micro level in your budget, and I hate to be parochial, we in the Tennessee Valley have an agency called the TVA. And on the very last page of your budget, you essentially suggest that by September of this year, they need to have a plan to cut their debt in half.

Well, their debt is large, but for each one billion of debt reduction, that is a 18 percent rate increase or tax on the people of the Tennessee Valley. So I hope you will be sparing on the people in that seven-State region as you essentially force them to be taxed, to dig out of their debt hole when the Federal Government is not doing very much to dig out of its debt hole. We have, on the screen there, two giant patches of red, and they extend almost as far as the eye can see. As you correctly put it, no one can predict much beyond a few years ahead. But you know the problems of this body and I hope and pray for you that you do not suffer the fate of your predecessors because it looks all too likely at this point.

Mr. DANIELS. Thank you for your solicitude, Congressman, and I appreciate it, and I guess I can only say that nothing about this job has to do with me or any reputation I might ever have. It is about trying to help this President deal with the problems facing him, which are different than the problems facing his predecessor or his predecessor. And that is what we are gathering about today. Recession he inherited, a war no one asked for, created this situation and what we all must be—the business we must all be about is how to deal with it best. And I presented his plan, which does place some things above the objective, the near-term objective of a balanced budget, not many, but a few. We are very receptive of other ways to meet the Nation's needs and do even better than we forecast to do here. The micro level, I will say that no one favors higher rates for people in the TVA area. They had a plan to reduce their debt. This was their stated objective in previous years and have for various reasons not acted on it and in fact moved away from it. We have called on them to write a new one. And there are many, many ways that do not involve rate increases that they might first of all avoid take on greater debt which at present they would like to do and begin to move down the 25.3 billion that they piled up. So we would be glad to work with you on that and with the interest of the upper-most ratepayers.

Chairman NUSSLE. Mr. Hensarling.

Mr. HENSARLING. Thank you Mr. Chairman and thank you Mr. Chairman for recessing us so we could witness a very moving memorial and wonderful celebration of heroic life. Mr. Daniels, one of the advantages you have as being a member of least seniority in your party is, No. 1, you get to sit in front of the chairman so that your wife and mother may see you on C–SPAN. Another additional advantage you have is you have the opportunity to hear the testimony and questions of many wise and senior members, some of which spoke with a lot of passion. I, too, am passionate about issues. One of the issues I am passionate about is the American family and I want to commend you and the administration for holding the growth in government spending to a level no higher than the growth in the family budget. I believe it is a good starting point and I believe we have a lot more room to grow however. A friend and colleague and fellow Texan earlier today spoke to us about learning the lessons of history. I believe it is, indeed, difficult to project these deficits 10 years in the future. I believe that economic forecasting not unlike auto mechanics is a highly imprecise science. Perhaps there may be a little more agreement though on the historical record. Have you looked at the history of what has happened when this Nation has cut marginal tax rates and what that impact has been on economic growth and tax revenues?

Mr. DANIELS. Yes. From time-to-time.

Mr. HENSARLING. Can you tell us what that impact has been?

Mr. DANIELS. Typically the impact has been that revenues in succeeding years did increase. This was certainly the experience in the 1960s, again in the 1980s.

Mr. HENSARLING. And its impact on economic growth?

Mr. DANIELS. Revenues increased because economic growth after the fact of the tax increases was substantially higher.

Mr. HENSARLING. I would like to take a look historically also—I would be curious if you looked at the flip side of the coin and what our history has been in the modern era when we have actually raised marginal rates and its impact on deficit reduction. Historically, is it your impression that as we have raised marginal rates, that any increased government revenue has been earmarked for deficit reduction or is, instead, the government budget continue to grow, outpacing both inflation and economic growth?

Mr. DANIELS. There have certainly been many occasions in which any new incremental revenues were spent.

Mr. HENSARLING. So is it your opinion, then, that increasing marginal revenues is historically proven to be a poor method by which to fight deficits?

Mr. DANIELS. I will just say that I think it would be a poor method in the situation which we find ourselves now this for certain. The economy underperforming, higher tax rates—particularly higher tax rates. I think the President believes it would be backwards economic policy and probably counter productive.

Mr. HENSARLING. Mr. Daniels, over the last 5 years, discretionary—Federal discretionary budget has grown an average of 7.2 percent a year which has outpaced both inflation and economic growth. Presently, I believe the average American family pays almost 40 cents on the dollar to pay their Federal, State and local income taxes. If the Federal discretionary budget continued to grow at 7.2 percent and if we continued to have modest economic growth without the passage of an economic growth program and since you have been asked to look through your crystal ball in the future, would you have an opinion on what the tax burden might be on the American family 10 and 20 and 30 years in the future?

Mr. DANIELS. No, not offhand, but I would certainly concur that the rate of spending growth that we have experienced in the last few years needs to be curtailed as the President has suggested, needs to slow down to something much more moderate and that particularly when coupled with the pending increases not immediately but 10 and 15 years out and the obligations we have committed to under our entitlement programs would combine to be an unsustainable burden on future taxpayers.

Mr. HENSARLING. Mr. Daniels, I have heard a lot of talk today about the deficits. But typically, I have only heard one response to them, and that is increasing taxes once again on the American family. I would certainly propose for all the members here that there is another option and it has a lot to do with cutting Federal spending. Thank you, sir.

Chairman NUSSLE. Mrs. Capps?

Mrs. CAPPS. As a new member—another new member of our Budget Committee, I want to first tell you, Mr. Chairman, what an honor it is to serve on this panel. As a committee which sets the framework for our fiscal policies, I know we are here to begin to make the important choices which address our country's challenges. I see the budget as a reflection of our priorities, our values, if you will. And while we must continue the fight against terrorism, we can't forget our key domestic challenges. I am a nurse and I came to Congress after spending two decades working in the public schools of my community. As such, I focus my professional life on efforts to improve health care, both in my community and now in our Nation. Today there are many health care issues in my congressional district and rural and other areas across this country that the Federal Government can and should do something about, like the growing shortage of doctors and nurses, and millions of people without access to health care, millions of seniors without ability to get prescription medications, and a public health infrastructure that is stretched beyond capacity which really does impact our homeland security.

I met just a few minutes ago with a group of representatives of one of our Nation's largest nonprofit health and social service organizations, and I told them I was going to come and ask you some questions for them about health care. I have three topics, and I hope we can touch on all three, but I want to start on a very significant one, which is the reform of Medicare. This administration is pushing private health plans as a panacea to Medicare's woes. We have had private plans in Medicare. And in my district, they are not working. Medicare+Choice plans are dropping out of the program and cutting back benefits. None of these plans want to participate in rural, districts like mine and the premiums are rising faster than Medicare costs. Given all of that, my question to you is, why these private health plans will be good for the programs for all of our seniors.

Mr. DANIELS. I think these are probably not the plans that would serve seniors under a reform like the President will propose. I will observe that the Medicare+Choice plans have been leaving not because seniors don't like them. Seniors' customer satisfaction rates have been well over 90 percent. They have been leaving because in a command and control system, they are losing money at the rates that the government has chosen to pay them.

So I don't think they are a model, certainly not the way we administered it. I would expect that under a program like the President will propose, you will see a close parallel to one that works very well for Federal employees who are served even in small communities and rural areas, are served with a great degree of choice about physicians and about the kind of benefits that they—that suit them and their family best. And the President is very sensitive to the concerns you mentioned. It has to be a plan that works for everybody everywhere, and it has to be one that opens many new choices while preserving the ones that seniors have now.

Mrs. CAPPS. Thank you. I am going to look forward to continuing that. I want to bring up one issue. I worked very successfully, I believe, in the House and Senate to address our nurse shortage, and that situation I am watching because the budget that—Tommy Thompson said some good things about it in the Department of Health and Human Services budget in brief, but nurse education loans actually are going to be cut in the President's budget, so I am going to be watching this. I am also very mindful of Medicare payment cuts to Medicare providers. The cut that was 5.4 percent last year is now going to be followed up with 4.4 percent.

In this current budget, you say you want to fix the physician problem, but we are hearing from these same people that were in my office and also in my district that they are really struggling. So I want to know what your views are on Medicare provider payment increases during this fiscal year.

Mr. DANIELS. In particular, the physicians, we think, are not being fairly compensated. There is really an arithmetic flaw using old data, and I think you are familiar. We think that is the strongest case, probably stronger to be honest, than many of the other providers for whom the independent, so-called Med-PAC committee has continually given evidence of are being adequately compensated for the moment. But there is an issue with physicians, and we are interested in trying to fix it. Let me say a quick thing about nurses because it is a very important problem. And we have been trying and would respectfully ask your guidance and assistance maybe.

We have a program called Health Professions grants, which has historically been aimed at generating more professionals and also getting them to underserved areas. It hasn't been working very well at all. Meanwhile, there is a somewhat parallel program called the National Health Service Corps, which seems to do that job very well, and in particular, has been, I believe, supporting nursing education. The President, in this budget, also suggests nurse loan forgiveness as another initiative. But we have to find better targeted ways to get at this common goal. There are places where we have all the doctors I think we can use, and too many places where we don't have enough doctors and certainly not enough other professionals.

Mrs. CAPPS. I do look forward to working with you, and I am very cautious about the Health Service Corps as a model because it doesn't deal with bedside nurses. But I hope this is a conversation that we can continue, and I appreciate you being here.

Chairman NUSSLE. Mr. Garrett, do you have any questions?

Mr. GARRETT. No.

Chairman NUSSLE. Mr. McCotter.

Mr. MCCOTTER. Thank you Mr. Chairman. I just want to touch and make sure I understood a couple of the larger ramifications of the budget and then a specific question. And bear with me. I am new here. Just a simple country lawyer from Detroit. The three—it seems to me that in addressing what happened before, the 1990s were a very good decade for economic growth, but I think it was important to remember that you had two engines driving that. The prior administration I believe deserve credit for NAFTA, which opened up expanding economic opportunities in other markets. And I think we saw the final economic expansion of the economy based on the concept of the computer.

And if I am correct on this, as the economy expands from new ideas and new initiatives, it can often overexpand on the expectation that it will produce more wealth or more opportunity than it really can, and then the market can correct either by stopping at that point, or in the case of overexpansion, contracting.

So therefore, while revenues were increasing in the 1990s, one of the three prongs of the problem we are in now is the inherited recession. But in many ways, that was not due to the fiscal policies of either the prior administration or this one. It was really due to the concepts of NAFTA—and NAFTA and the computer winding up its own initial expansion and rush for the economy.

Secondly, I believe you talked about the war on terrorism. And we are in a state of war. We are in a state of war with an enemy that does not fight by conventional diplomatic means or military means, and it is the kind of war that the better we do, the less we are aware of it. And I think spending on things such as homeland security, which would be much better perhaps over a 10-year period, say, if we could go back, but right now we cannot go back we can only go forward. And I think I understand that.

And finally, this is where my question comes into you, especially in prognostications which are always a risky proposition, September 11, it strikes me that to a certain extent, one of the things people have not factored to the effect on the economy is, has anyone noticed or has there been anywhere where I can find out more information because I believe there is a direct link between September 11 and what happened in this sense. It makes it much more difficult for people to make rational economic forecasts either in a family room or a board room or somewhere else because they now have to factor in the potential for by the very nature, an unpredictable act of terrorism that could adversely affect the economy.

So in many ways, much of what we do, either through the budget or through any policy, we have to understand that many average policy believe that at any time, something could happen in this country through an act of terrorism—be it biological, chemical or other that could throw the economy right back into a recession. Where can I find more information, or has anyone done a study of that and how people are trying to prepare for that?

Mr. DANIELS. I think those are pretty profound comments end to end, Congressman. And let me react to two or three things you said. First of all, I have often said in this room that I think enormous credit is owed to members of both branches during the previous administration and both parties in the Congress for a good fiscal outcome that occurred, and that gave us a pretty good starting point for the events that hit us, starting in 2000 and 2001. I do believe that. I think, secondly, that you are quite right that we need to be careful not to be too Washington-centric in our view of a $10.4 trillion economy. Things that are said and done here have an effect and can have an important effect, but we ought not imagine that anyone in Washington or any group of people collectively run the economy or manage the economy or words like this that are too loosely thrown around.

So yes, I do believe developments in technology, and in a freer world, the economy had an awful lot to do with the results that were achieved. All that said, I certainly agree with you that we are living with uncertainty now. I don't know exactly where to go for a study by the very definition of the problem. There is not precision around this subject. But clearly, uncertainty for investors may be causing some hesitation. That is not necessarily going to be fixed by some spending or taxing decision that we make here. But these are the cards we have been dealt, and we want to work with Congress to play this hand out in the best interest of all Americans.

Chairman NUSSLE. Mr. Emanuel.

Mr. EMANUEL. Thank you, Mr. Chairman, and thank very much for providing time after the service for us to speak. And thank you Mr. Director. I have worked on both sides of Pennsylvania Avenue albeit a short period of time here. And I know and appreciate the tough choices that have to be made in the budget and appreciate the last couple of months you had to go through and you look better for the wear of that. And what happened to Al Strivland and Leon Panetta through that last 3 months and their competing demands to meet the challenges and struggles that our Nation and our families face, both to fund the war on terrorism and our homeland security, to invest in education and health care and the needs that our families face here at home, as well as to provide tax cuts to hard-working families.

There is a current debate going on between the parties at the White House and the public domain about whether deficits really even matter, whether they have an economic impact. I think that if you don't think that deficits matter, and it is a fair debate of whether they have a fiscal response. But if you don't think they matter, they also lead to a view that there are no political consequences to deficits, and therefore they lead to an attitude that is disrespectful, or it lowers them as you would say on the priority list. And just for one fact, the Chicago Tribune noted in its editorial yesterday, we spend $171 billion on interest on the Federal debt.

That is more than we spend on education, transportation, and energy conservation initiatives combined.

So those who think that deficits or building up the national debt don't matter, I would like you to know that even though that $171 billion is low, it still crowds out and is larger than the combined Federal commitment to education transportation and energy conservation. I think regardless of party, everybody agrees all three are important to our economic future today and tomorrow. So although they are not politically sexy, and I understand the politics around deficits, deficits do matter. There may not be political consequences, but there are surely investment and fiscal consequences and they reflect in our values.

I also want to say and give you a sense that we talked about, whether there is a cut or a growth and to pay for this additional debt and to pay for the other priorities and you said I think right. We need to balance priorities. I believe we need to offer the American people a balanced deal: Targeted tax cuts, investments in education and healthcare, and also an attempt to target and deal with our war on terrorism. There are cuts in education investments like teacher quality for $173 million that will be cut. The maximum Pell grant award will be frozen for the second year in a row at $4,000 while everybody agrees higher education costs are soaring. Paying for our national debt has consequences for our ability to invest in America's future. This brings me up to two other points.

I want to thank you, Mr. Chairman, but I finally heard an economic argument in behalf of repealing the inheritance tax and that is we need to repeal it for all these children of millionaires because we are going to bequeath them nothing but a debt tax. So they are going to need that money from the inheritance tax to pay off that debt tax. The administration's budget refers to the looming problems in Social Security—I think I am quoting directly—the real fiscal danger.

It is therefore illuminating to me, and they put a flashing red light around Social Security and say that is the real fiscal danger to examine the size of the administration's tax cuts relative to the size of the Social Security deficit over the next 75 years. According to the Social Security actuaries, the deficit and Social Security over the next 75 years amount to .72 of GDP. The cost of the administration's tax cuts including the 2001 tax legislation in the new proposals amounts to between 1.7 and 2.1 percent of GDP. That is more than twice the Social Security deficit over the same period of time and yet no flashing red light around the real fiscal danger. And my question is how can the deficit and Social Security be the real fiscal danger to this country when the administration's tax cuts are more than twice as big over the next 75 years and there is no warning issued to the consequences and costs associated with those deficits?

Mr. DANIELS. Although I thank you for saying I look better than I might, I think you do a real injustice to Leon Panetta. Every time I see him, he looks so tan and healthy, I am envious. Things have got to get better after you leave this job. Let me associate with two or three things you said in answer to your question. Yes, deficits do matter. Most emphatically they do.

What we all have to work toward and reach toward is the answer, how much do they matter, how much do they matter compared to other issues, some of them life and death issues that we are facing as a country. And governing is about choices, and the President welcomes the Congress' help in working with him to balance the choices we have to make now. Let me say something about the debt service we have. We all wish that we had a zero interest payment. It is, however, important to note that, again, thanks to the lowest interest rates we have seen in the lifetime of most Americans, our interest payment this year will actually be lower than the year just finished and will stay in the 8 or 9 cent range throughout the time horizon we are looking at here, 8 or 9 cents of the dollar we spend. I wish it was 6 cents or 5 or 4. And if we do the right things and get the right breaks, it could be that. But again, that is a sharp contrast of 15 cents just 5 years ago. So there is some consolation there.

Finally on Social Security, I think I see the situation a little differently, although I will be happy to take a look at the mathematics you just ran through, but the present value of the Social Security shortfall is between 5 and $6 trillion, and it is much, much larger than the impact of any tax or spending bill we will consider right now. The point of that chapter was to say as important these matters are, what is the right level of taxation today, by how much should spending increase and so forth, there is an issue sitting out there for the long-term that is a couple orders of magnitude bigger.

Mr. EMANUEL. I will send you the material we came up with noting that, and then we can analyze and look at that and continue that discussion because I think the choice—as you know, choice reflects values and priorities. And my own view is I just hope when we say it is a real fiscal danger, we don't overlook what we think is important versus other areas.

Mr. DANIELS. That is fair to say, Congressman, and doesn't mean there aren't other dangers around. I just want to say I am unaware of any analysis that says we can conceivably raise taxes high enough to cover the unfunded liabilities of Social Security or Medicare, that we would have to raise taxes to unthinkable levels in the future to cover those problems.

Mr. EMANUEL. That isn't what I was suggesting.

Chairman NUSSLE. Mr. Davis.

Mr. DAVIS. Thank you Mr. Chairman, Mr. Daniels, good afternoon. Freshman need to figure out the mikes on these things. Several times you have made a point, but I think is certainly a very accurate one. And it is that governing is about choices and governing is about priorities. As I look at the President's budget, I do it in the context of my own district. My district, the Seventh District of Alabama, is one of the poorest districts in the country, but it is similar to a lot of districts in the Delta, a lot of districts in the rural black belt. These are parts of our country that, frankly, regardless of the economic state that we have had in America, they lag behind. They have poverty rates that have been chronic. They have had unemployment rates that are two or three times the national average.

I have to confess to you that I am struck as I look at the budget, I see an interesting and disturbing pattern when it comes to rural

America. If I could pick just a few choice examples. A $52-million cut from rural health initiatives. And when I say “cut,” obviously I mean a decrease from the 2002 projected spending levels. The empowerment zones that have been so important in revitalizing a lot of communities in west Alabama, funding is eliminated all together. The rural community advancement program, $356 million, 40-percent cut. Throughout this budget, there is, in my mind, a shifting of priorities away from rural America. So given what you have said about budgets reflecting choices and budgets reflecting priorities, to people who live in districts like mine in rural America, what does this budget say about the President’s priorities?

Mr. DANIELS. Well, I think that read fairly and completely, it would say that rural America is very high on his priority list. The programs you mention are relatively small. I am not saying that they are not important and not in some cases effective, but there is a lot you didn’t mention. I mean, just to pick one at random, a program which has not always found favor, I have to say, in some previous Republican administrations, but we try to look at honestly and fairly, the Economic Development Administration which provides grants, specifically in high unemployment and high poverty areas. We have marked down for a significant increase.

Last year’s farm bills—much maligned but dramatic increase in spending in rural America, I must say—takes full account of the needs of the rural south in terms of its emphasis. So I think that you know, this President comes from, lives in, rural America, knows the people there and connects with them on a personal level when he gets the chance. So these issues are very close to his heart. Where you see things that could be done better or could be touched up, we would invite you to show us where you think would be most useful.

Mr. DAVIS. Let me follow up in that point, Mr. Daniels. I was back in my district yesterday, and had a chance to meet with some economic development people. And I will tell you that they often say to me that the empowerment zones in the enterprise communities that were enacted in the last several years have done two important things. No. 1, they have given businesses an incentive to come to parts of our country that have often been outside the radar screen of a lot of folks in the business community; and second of all, they provided a direct stimulus that has allowed certain people to get jobs.

Again, I will note that funding for that program is eliminated all together, if I understand the budget correctly. As a matter of policy, do you agree that programs like the enterprise community can provide effective stimulus for rural America, and if you do agree with that, can you tell me what the President’s budget is reflecting?

Mr. DANIELS. They can but they don’t always reflect that record. I will be glad to write you a more detailed letter of our view of that particular program if you like. But throughout this budget, we have been searching for ways to address priorities like this in the most effective way. And simply the presence of an appealing title or an occasional success story doesn’t always tell us whether this is a smart thing to do for all of America.

Mr. DAVIS. Let me follow up on Congresswoman Capps' question. She asked you about an issue that is frankly critical in my district also, and it is the question of Medicare reimbursements. You were stating that you agreed with Congresswoman Capps that it would be appropriate to give doctors back some of the money that has been taken away from them because of estimates and problems with the Medicare reimbursement formulas. Given that that is your conclusion, do you think the Senate did the right thing 2 weeks ago when it voted down an amendment that would have restored some of the Medicare cutbacks that Congresswoman Capps asked about?

Mr. DANIELS. Well, we have to find the right time and place, and it could be soon or it could be on some measure later in this year to try to rectify this situation. As I recall, the Senate did act or proposed to act to provide greater payments to physicians as well as some hospitals. And we will see what can be worked out in the conference. Whether that is the right time and place to make that adjustment is up to the members of the conference. But sooner or later, the President would like to see it taken care of.

Chairman NUSSLE. Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman and Mr. Daniels, for being here. I want to thank you for your emphasis on priorities. I think that is very important as we set out in this effort to craft a budget that is going to work for the entire country. And I don't think anybody disagrees with you on either side of the aisle that homeland security and national security are certainly top priorities. But I am one who believes that economic security is also very, very important, and I don't think you have homeland security without economic security. And I don't think we can get there unless all of us are willing to make a commitment toward this debt reduction and make a commitment to some sort of pay-as-you-go effort when we are proposing new programs or when we are increasing funding in old programs nor can we get there if we neglect the needs of our States, and that has been raised a couple of times today.

But the truth is that 48 States are in the red right now, they are struggling, and everybody in those States are struggling. And what we are talking about is not only the priorities, but the values of the people that all of us represent. And if that is not the real bottom line, it is certainly a big part of the bottom line. And some of the people on the committee have mentioned specific programs, but, you know, you can take anyone you want. You can talk about the 500,000 veterans that got a notice in the mail that they are because of budget constraints, they are no longer eligible for veterans health care or they are going to have to wait 6 months or a year before they can have their first appointment.

Folks have mentioned education, Pell grants, Impact Aid or the full funding of the No Child Left Behind Act and health care is certainly an obvious one, irrespective of where your district lies, rural urban or otherwise. And while we may not need to get too excited or hyperventilate over this debt that we have, I, for one, believe it is something that is very, very important, and I think it was explained well during this hearing, that it is not just a debt, it is a debt tax. This is a tax that is going to be imposed on every taxpayer in this country from now on. And if you just do the rough math, it is about $2500 per taxpayer.

So Mr. Chairman, to use your analogy, we are not talking about remodeling the kitchen, what this budget does is it spends the food budget, and it spends it long before anybody is fed, and that doesn't even take into consideration as you pointed out what cost of war might be or some of the spending programs that the President talked about in his State of the Union message.

I think every major economist will tell you, and the models that they use for doing their forecasting, I think including CBO and the Federal Reserve, are based on the assumption that any expected future deficits will increase interest rates. And I think that is a big issue, and I hate to beat a dead horse, but everybody has talked about that some way or another.

So the real question for me is how do we recognize the priorities and the values of all the people we represent? How do we move to repeal this debt tax, a billion dollars a day in interest alone, money that just goes away from the priorities and the values that all of us on both sides of this dais have talked about? If we don't do it, I am afraid we are headed for a Federal train wreck, and it is going to be the local governments in all of our home States that are going to be left to clean up the mess from that Federal train wreck. The truth is they are all the same taxpayers. Doesn't matter if they are talking about them here or talking about State legislatures in this country. It is all the same taxpayers.

Mr. DANIELS. I quite agree, Congressman. As I pointed out before, to an extent that a lot of people hadn't noticed, frankly I hadn't until very important questions about State finances came up, the transfers from the Federal Government to the States have gone up very, very fast. Four years ago, $285 billion. Next year $407 billion. It is a 9 percent rate of increase. A lot of it is driven by automatic programs like Medicaid, for instance. But a lot of it are new decisions that have been made. A lot more in education under the last and particularly this President. A lot more in highways and unemployment more recently.

So let us remember, by the way, that the Federal Government doesn't have any money of its own. It has to take it from the taxpayers. It is all the same taxpayers. So we are taking from the taxpayers of certain States and making life easier for the taxpayers of some of their fellow Americans.

Mr. THOMPSON. If you would allow me to interrupt you for a second: But the difference is, in addition, we are also tacking on this horrendous debt that not only the taxpayers are going to be faced with, but their children, their grandchildren, our children, our grandchildren are going to be faced with.

Mr. DANIELS. Well, the question is, is it important or not to do what—to put this money to the purpose to which we have put it? Many, many families, the majority of American families, do take a mortgage. They decide that long-term housing is important to them, and that is a smart financial decision.

As I indicated, our Federal mortgage payment is actually as low as it has been since 1979, 8 cents on the dollar. We ought to try to keep it there. But the fact is, that the burden today is about half of what it was just a few years ago. And I try always to give credit to people in both parties who worked hard during a different set of circumstances to get that down.

So we will continue to pay attention to it and remain very receptive to ideas that won't hurt the economy and take two steps back for one step forward, but that might make that deficit smaller, and welcome your ideas in that respect.

Mr. THOMPSON. Thank you. I look forward to working with you on this. And I just—I just can't believe we can dig our way out of this by expanding that debt. It is something that is really troubling for all of us.

Chairman NUSSLE. Next in line would be Mr. Meek.

Mr. MEEK. Thank you very much, Mr. Chairman.

Director Daniels, it has been a real honor having the opportunity to hear you respond to some pointed questions and some questions that I am pretty sure that you can answer in your sleep as relates to this budget.

But I wanted to just, I guess, speak for a moment, being a creature from a State legislature—I was in the State senate this time last year and served in the State legislature for some 8 years, and I can't help not only read, but speak to my colleagues throughout the country in the National Association of State Legislators of some of the things that they are facing right now. And the worries, they are very worried about this budget that we are putting forth now. There are all kind of different, how would you say, descriptions of this budget, a wartime budget, a budget of hard times, a budget of priorities.

But back in the States we are looking at a 50 to $70 billion shortfall throughout the country, of them having to make some very rough choices. Being a member of the State legislature, serving on appropriations and the budget committee during my 8-year period, there was a lot of what I call "devolution" of taxation.

Here in Washington it is very easy for us to give tax breaks to individuals that need to be, whatever the taste may be on either side of this table here, for the top 1 percent or the top 2 percent or 3 or whatever the case may be. And then at the same time, what comes from that, over 50 percent of all Americans, they may receive maybe $100 or $200 back in a tax rebate. So it is a pretty good night out at the restaurant. But it is at the cost of their children's education.

In looking at the education budget, I can't help but reflect on the kind of pain and suffering educationally and economically that many States are going to go through as they look at this. And at the end of my—how would you say—statement here, I wanted to really—I wanted you to start thinking about in this budget, how is it going to help this Nation's Governors? How is it going to help State legislators? How is it going to help local school boards and city councils meet their bottom line in being able to provide the very necessary services to our country, need it be in a time of war, or need it be in a time of nonwar?

You know, as we look at this, the National Conference of State Legislators, they are saying that two-thirds of their States must reduce their budgets by almost $26 billion between now and June 30 of this year. States have already addressed $41.9 billion in shortfalls as they craft their 2003 budgets.

The news even gets worse as we move on. State legislators see in their 2004 budgets that it is going to be some $65 billion. If I said million earlier, I meant billion—billion dollars in shortfalls in their 2004 budget. This is really where the rubber meets the road, and what you may call in-your-face, last line of defense of people asking for dollars.

As we make these cuts, as we make $45 billion—if we cut 45 programs in our Education Department right now, as we look at being $9 billion below—the Leave No Child Behind Act that we all felt very good about, I will tell you that it was a breath of bipartisan fresh air in the lungs of many educators and many individuals in the States that were looking for some new ideas from the Federal Government. And now, seeing in this budget some $199-million below the 2000 authorized level, 2002 authorized level, of the Leave No Child Behind Act, I am trying to find something good. Not to try to be partisan and not trying to be an "I got you" kind of person or Congressman, I am trying to find something good that I can share with my State legislators, that I can share with my city councils and county commissions on what they have to look for out of this Federal budget that is good.

Mr. DANIELS. Well, let me try to help you find it.

First and foremost, once again, there is nothing the Federal Government can do for State and local governments nearly so important as to create the conditions for stronger economic growth. That has been, I think, correctly said. A lot of States during the boom era of the late 1990s raised their spending very dramatically, maybe in some cases faster than was smart, and have got to back up from that now.

But the basic problem for them, as for the Federal Government, is a collapse in revenue, the popping of the bubble, the recession that came on us in 2001. And it has done to them just what it did to our revenues.

Mr. MEEK. I am sorry, Director.

Just one more, Mr. Chairman.

What happened, not only in my State, but many States, they followed the Federal Government's lead in trying to stimulate the economy, saying that tax breaks to individuals that would hopefully pass them down to hiring more employees and investing more, many States bit that hook, Florida for one.

Spending, when we look at spending, when folks start talking about we have to stop spending, I am looking at the Leave No Child Behind Act when I hear that, because when it comes down to military spending, which—I am on the Armed Services Committee and glad to be there, and looking forward to serving with the Members of this Congress as we protect our country—I think it is important that we remember that in this debate when we start talking about tax cuts, who gets the tax cuts and who doesn't get the tax cuts, and what does it mean to the bottom line of everyday Americans.

But, Director Daniels, I look forward to working with you.

Chairman NUSSLE. Thank you.

Mr. Baird.

Mr. BAIRD. I would like to thank the Chair for reconvening the meeting and for giving us the time to participate.

Two years ago the Chair and myself, and many of my colleagues across the way and the President himself, spoke a great deal about the importance of setting Social Security and Medicare aside in a lockbox.

And if that is the case, I wonder if we might want to adopt a convention among the members of the committee and at the administration level that when we refer to deficits, that we refer to the full extent of the on-budget deficit, not the deficit masked by Social Security and Medicare. If we really believe that we should take Social Security and Medicare off budget, then we ought to report the deficits as full deficits on budget.

I wonder if Mr. Daniels would be willing to entertain that suggestion?

Mr. DANIELS. It doesn't make a lot of difference to me. I think it—the unified budget is probably the proper way to look at the finances of the government. But either measure, you know, has its uses.

Mr. BAIRD. I just think it is important, because if I look at figures of, say, 165—they vary, but that level of deficit, and in fact the on-budget deficit is over $480 billion projected for 2004—I think there is a substantial difference.

I have heard my colleagues on the other side say people haven't talked about spending cuts. We need to cut spending. I will agree with you on that. But I think we need to put it in a context, and I will ask Mr. Daniels if my understanding is correct.

As I look at your figures in the budget, the on-budget deficit projected for 2004 is $482 billion. The on-budget non-defense discretionary spending is $429 billion. My understanding of that would seem to be, if we wanted zero deficit spending and want to have the tax cuts that are proposed, we would not only have to cut, but would have to eliminate all non-defense discretionary spending.

Is that an accurate interpretation, given the numbers, not just cut, but eliminate all?

Mr. DANIELS. Well, on your formulation, yes.

Mr. BAIRD. Given that, I just think we need to be careful about your rhetoric, lest we go home and say, folks don't just want to cut spending, we are talking about eliminating all nondiscretionary spending.

Third, maybe I am not hearing correctly, but I have heard my colleagues on the other side say that all the members on the Democratic side want to do is talk about tax increases. I would defy you, ask you, invite you to cite one single record or statement in the record of this hearing all day long where a member of this side of the aisle has said we want to increase taxes.

There has been discussion, and I think fair and sincere discussion, about whether or not when our Nation is at war, when we are $480 billion in deficit or heading in that direction, whether or not now is the time for the extent of the tax cuts—the full extent of the tax cuts that have been proposed by this administration. But I have yet to hear anyone from this side of the aisle say they favor a tax increase.

I just think it is fair in the spirit of bipartisanship and collegiality and frankly just intellectual honesty, to be careful about how we say that.

On the issue of double taxation, I have heard passionate statements by the administration about the need to eliminate the dividend taxation because it is double taxation.

Mr. Daniels, seven States in this country—interesting States they are—face, effectively, double taxation because we are not allowed to deduct our sales tax from our Federal income tax returns. Let me share with you what those States are. You probably are well aware, But they are interesting States: Texas, the President's own state; Wyoming, the Vice President's State; Florida, the President's brother's State; South Dakota, Tom Daschle's State; Tennessee, some influential folks in the other body; and Washington and Nevada. I may have covered all of them there.

Essentially, this is an unjust tax. States that have an income tax are able to deduct their State income tax when they file their Federal returns. States that have a sales tax are not able to. It seems to me that this amounts to double taxation.

I wonder if you can comment on that, and if you would be willing to work with many of us on a bipartisan basis, bicameral, I believe, to try to address what I think is a fundamental inequity and what amounts to those States subsidizing the Federal Government.

Mr. DANIELS. Well, we would be more than happy to work with you on any matter that—of tax inequity. We have far too many in a Tax Code that is way too complex; and the President has suggested acting on one of those areas, but that doesn't mean that there aren't many more that—and, in fact, whatever else your suggestion may finally turn out to accomplish, I think it stimulated a lot of interesting discussion.

People have stepped forward and said, you know, you have a point there, but here is another example and here is another one. One day I suppose that we will all try to turn to maybe the hardest subject of all: How can we get to a much smaller Tax Code that would be fair to everybody? But I appreciate your making that point.

Let me just say one other thing that, in contemplating the—at least the immediate deficits we have, whether you measure them on a unified basis or on the so-called "on-budget" basis, complete repeal—forget postponement. But complete repeal of the 2001 tax bill wouldn't come close to closing the gap—we have illustrated this in different ways—wouldn't even come close; that is, if you reinstated the marriage penalty, put the 10 percent bracket back to 15, all of that, you wouldn't even come close.

So we just have to recognize that economic events and international events changed our situation fundamentally, and now we have got to do the smartest and fairest thing about addressing it.

Mr. BAIRD. I think you raise a legitimate point. Just to close, I think that is what we need to do. We need to say honestly, just on our side of the aisle, we need to be honest and say you can repeal all of the tax cuts and still not solve the problem. But on the other side of the aisle, you also must recognize that you could eliminate all discretionary spending and still not solve the problem.

The question is, how do we go about it in a responsible way? Where do we target the tax cuts, and how do we get to some kind of balance over the long haul?

Chairman NUSSLE. Mr. Daniels, we have come down to the last inquiry of the day. We are saving the best for last.

So Mrs. Majette.

Ms. MAJETTE. Good afternoon. Thank you, Mr. Chairman.

And, Mr. Spratt, I am pleased and honored to serve on this committee with you.

Director Daniels, I am frankly troubled by the circumstances that we face in light of this budget, this 13½ pound document that I received yesterday. And frankly, as you indicated earlier, we haven't had nearly enough time to go through it, but I have been able to glean a few facts from this incredible document and was frankly startled by the deficit projections.

I know we have had a lot of discussion this morning and this afternoon the deficit situation and whether we should use 10-year or 5-year forecasts. But either way, I think the numbers are shocking. I am particularly concerned about the impact the proposed budget and future budgets will have on our children and grandchildren. I am particularly concerned because, after all, they will be the ones responsible for paying the bills that we are refusing to pay today, and that, if we accept this budget, we are creating for tomorrow.

This budget not only robs Peter, it fails to pay Paul. When we fail to make the investments in our future for education, for basic infrastructure and for research and development, what we are creating and what this appears to be is a blueprint for disaster.

Before we get ready to bill our children and our grandchildren as much as $6,000 a year in taxes just to cover the debt, we must take pause. Right now, under the current debt of $6.4 trillion, each child under the age of 18, and I have two of them, today would owe $80,000. Now, that would be enough to send each one of them to Princeton for 2 years of undergraduate study, or almost 3 years at Georgetown Law School. That excludes the interest payments.

Under the Treasury bond rate, the figure would jump to between $125,000 and $139,000 per person over a 30-year period.

Now, if we add the projected $2.1 trillion in additional debt that the budget calls for, the figures jump dramatically. Each member of the next generation would then owe $106,000 and would pay between $166,000 and $184,000 over a 30-year period. Is that fiscal responsibility?

But what I really want to know is, if we adopt this budget, how are we going to retire the projected $8.5 trillion in debt? How are we ever going to pay that back? I think you would agree with me that no prudent businessman or woman or consumer would ever borrow or lend any amount of money without a clear repayment plan. So I ask you, where is ours? What is ours under this projected budget?

The other issue I would like for you to address, and I guess that you have already addressed the first part of it. With respect to my district, I represent what some people call suburban Atlanta. It is just east of the city of Atlanta, and the CDC is located there. As you know, that is the only Federal agency headquartered outside of Washington, D.C.

Now, as recently as last week, the President, in the State of the Union address, described the national horrors that could result if a chemical or biological attack were launched against this country. And, furthermore, the budget explicitly states that no Health and Human Services activity is now more important than national bioterrorism preparedness.

Yet, despite the urgency of the situation, the budget cuts the funding for the CDC. The President's budget specifically decreases the level of funding for CDC facilities.

I have toured the CDC facilities, I have seen the state of those facilities. Many parts of the facilities are left over from World War II. There are holes in the floors and ceilings. Rainwater runs off because of leaks. Scientists' work is being stored in old refrigerators in the hallways. This is not the kind of situation that would lead us to have confidence in, nor lead that agency to have the ability to continue to be, the guardian of our Nation's health.

Moreover, the CDC plays a vital role in protecting all Americans from the biological attacks that we pray will not come. Given the importance of the role of the CDC in homeland security, can you explain why funding for the CDC is being cut?

Mr. DANIELS. First, it is not being cut, it is going up a couple percent to about $4.2 billion. There is $110 million which was on the discretionary side last year that will be funded on the mandatory side this year. So it is a natural confusion again, especially when you have only had one day to look at the budget.

But we will be happy to show you that, apples to apples, there is an increase. And the CDC is extremely important for the reasons that you gave, maybe more important than before.

Of course, at NIH and elsewhere in HHS, the President has suggested billions of dollars of new money to research bioterrorism, several billion dollars—we estimate it can be as many as 6 over the next 10 years—to ensure vaccines and treatments for deadly bioterror threats that we don't have today. So the commitment there is enormous.

Yes, there is a discussion on the CDC, about how many buildings ought to be built, how fast; they have been allowed to deteriorate badly over the last decade or so. There are some enormously ambitious plans to build a lot of buildings at once. But we are working with them, particularly, to make sure to fund the laboratories and the most important research facilities first. And I think when you do have the time to see the President's suggestion in this area in its fullness, that you will have confidence in it.

Mrs. MAJETTE. Thank you.

Chairman NUSSLE. There is really no hearing that we have this year on the Budget Committee that rises to the importance of this hearing. We really appreciate the fact that you would spend 5 hours on the Hill with us here today, Director Daniels, and for you understanding the inconvenience of the interruption as a result of the memorial service.

We appreciate your flexibility in the schedule.

Mr. Spratt.

Mr. SPRATT. Let me echo what the chairman has said, and thank you for your forthright presentation, and also for your forbearance.

I would like to ask if your staff can assist my staff in getting the numbers or values that correspond to charts 3.2 through 3.7 in the analytical perspectives.

Mr. DANIELS. Absolutely.

Chairman NUSSLE. I would also like to thank Mr. Spratt and the minority members in particular for helping us, assisting us with the organization of the committee. There aren't many committees that go through that process in a bipartisan way, and I want to thank you for that.

And last but not least, I have two constituents here from Iowa who are visiting, Conrad and Erik Clement, and more important than constituents, they are family. And so we welcome them to the Budget Committee.

And if there is no other business to come before the committee, we will stand adjourned.

[Whereupon, at 3:15 p.m., the committee was adjourned.]

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